



# Instructions for Form 990 and Form 990-EZ

## Return of Organization Exempt From Income Tax and Short Form Return of Organization Exempt From Income Tax

Under Section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)

**Note:** Form 990-EZ is for use by organizations with gross receipts of less than \$100,000 and total assets of less than \$250,000 at the end of the year.

Section references are to the Internal Revenue Code unless otherwise noted.

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charitable trusts, and section 527 political organizations to provide the IRS with the information required by section 6033.

- An organization's completed Form 990, or Form 990-EZ, is available for public inspection as required by section 6104. **Schedule B (Form 990, 990-EZ, or 990-PF)**, Schedule of Contributors, is open for public inspection for section 527 organizations filing Form 990 or Form 990-EZ.

- Some members of the public rely on Form 990, or Form 990-EZ, as the primary or sole source of information about a particular organization. How the public perceives an organization in such cases may be determined by the information presented on its return. Therefore, please make sure the return is complete and accurate and fully describes the organization's programs and accomplishments.

- Use the Form 990, and Form 990-EZ, to send a required election to the IRS, such as the election to capitalize costs under section 266.

### Changes To Note

- In 2002, the Treasury Department issued Final Regulations interpreting the benefit limitation provisions of section 4958 of the Internal Revenue Code. These provisions are important to the exempt organization community as a whole and for ensuring compliance in this area. These new Regulations advise organizations on avoiding situations that may give rise to inurement.

- General Instruction K has been revised to explain in greater detail the imposition of penalties on returns containing incorrect information.

- Public Law 107-276 changed the filing requirements for the following political organizations:

1. A **qualified state or local political organization** must file Form 990 only if it has gross receipts during the tax year of \$100,000 or more. See **Political Organizations** under General Instruction A for the definition of qualified state or local political organization.

2. Political organizations described under section 6033(g)(3) are exempt from filing Form 990 or Form 990-EZ. See General Instruction B for more information.

### Phone Help

If you have questions and/or need help completing Form 990, or Form 990-EZ, please call **1-877-829-5500**. This toll-free telephone service is available Monday through Friday from 8:00 a.m. to 6:30 p.m. Eastern time.

### Photographs of Missing Children

The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in instructions on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling **1-800-THE-LOST** (1-800-843-5678) if you recognize a child.

### General Instructions

**Note:** The General Instructions apply to both Form 990 and Form 990-EZ. See also the Specific Instructions for each of these forms.

### Purpose of Form

- Form 990 and Form 990-EZ are used by tax-exempt organizations, nonexempt

## A. Who Must File

### Filing tests

If the organization does not meet any of the exceptions listed in General Instruction B, and its annual gross receipts are normally more than \$25,000, it must file Form 990 or Form 990-EZ. See the gross receipts discussion in General Instruction B.

If the organization's gross receipts during the year are less than \$100,000 and its total assets at the end of the year are less than \$250,000, it may file Form 990-EZ, instead of Form 990. Even if the organization meets this test, it can still file Form 990.

Organizations required to file Schedule A (Form 990 or 990-EZ), Organization Exempt Under Section 501(c)(3), that do not meet the support tests discussed in the instructions for Part IV of that schedule should contact the Service at the following address to re-evaluate their determination-of-filing requirements.

Internal Revenue Service  
TE/GE Customer Account Services Office  
P.O. Box 2508  
Cincinnati, OH 45201

**Combined Federal Campaign.** Smaller organizations applying to participate in the Combined Federal Campaign may submit a completed Form 990-EZ (instead of Form 990) to the Office of Personnel Management (OPM).

However, these organizations must also submit to OPM, attached to the Form 990-EZ, pages 1 and 2 of Form 990 with the following completed: Part I, lines 1a-1d and 13-15; Part II, all lines. These organizations should not send this Form 990 attachment to the IRS.

### Section 501(a), (e), (f), (k), and (n) organizations

Except for those types of organizations listed in General Instruction B, an annual return on Form 990, or Form 990-EZ, is required from every organization exempt from tax under section 501(a), including foreign organizations and cooperative service organizations described in sections 501(e) and (f); child care organizations described in section 501(k); and charitable risk pools described in section 501(n).

Section 501(c)(3), 501(e), (f), (k), and (n) organizations must also attach a completed Schedule A (Form 990 or 990-EZ) to their Form 990 or Form 990-EZ.

For purposes of these instructions, the term "section 501(c)(3)" includes organizations exempt under sections 501(e), (f), (k), and (n).

### Political Organizations

In general, tax-exempt political organizations that have gross receipts of \$25,000 or more for the tax year must file Form 990 or Form 990-EZ. However, see General Instruction B for a list of tax-exempt political organizations that are excepted from filing Form 990 or Form 990-EZ. A **qualified state or local political organization** (defined below) must file Form 990 (not Form 990-EZ) **only** if it has gross receipts of \$100,000 or more.

A **qualified state or local political organization** is a political organization that meets **all** of the following requirements:

1. The organization's exempt functions are solely for the purpose of influencing or attempting to influence the selection, nomination, election, or appointment of any individual to any state or local public office or office in a state or local political organization.
2. The organization is subject to state law that requires it to report the information that is similar to that required on Form 8872.

3. The organization files the required reports with the state.

4. The state makes such reports public and the organization makes them open to public inspection in the same manner that organizations must make Form 8872 available for public inspection.

For additional information, including the prohibition of involvement in the organization of a Federal candidate or office holder, see section 527(e)(5).

### Disregarded Entities

A disregarded entity, as described in Regulations sections 301.7701-1 through 301.7701-3, is treated as a branch or division of its parent organization for Federal tax purposes. Therefore, financial and other information applicable to a disregarded entity must be reported as the parent organization's information.

### Section 4947(a)(1) nonexempt charitable trusts

Any nonexempt charitable trust (described in section 4947(a)(1)) not treated as a private foundation is also required to file Form 990, or Form 990-EZ, along with a completed Schedule A (Form 990 or 990-EZ). See the discussion in General Instruction D for exceptions to filing **Form 1041**, U.S. Income Tax Return for Estates and Trusts.

### If an organization's exemption application is pending

If the organization's application for exemption is pending, check the "application pending" box in the heading of the return and complete the return.

### If the organization received a Form 990 Package but is not required to file

If the organization received a Form 990 Package with a preaddressed label, we ask that the organization file a return even if it is not required to do so.

- Attach the label to the name and address space on the return. See the Specific Instructions for both Form 990, or Form 990-EZ, Item C.
- Check the box in the heading of the Form 990, or Form 990-EZ, to indicate that the organization's gross receipts are normally not more than \$25,000;
- Sign the return; and
- Send it to the Ogden Service Center. See General Instruction H.
- The organization does not have to complete Parts I through X of the Form 990, or Parts I through V of the Form 990-EZ.

Following the above instructions will help us to update our records, and we will not have to contact the organization later to ask why no return was filed.

If the organization files a return this way, it will not be mailed a Form 990 Package in later years and does not have to file Form 990, or Form 990-EZ, again until its gross receipts are normally more than \$25,000. If the organization terminates or undergoes a substantial contraction, see the instructions for line 79 of Form 990, or line 36 of Form 990-EZ.

Exempt organizations that filed Form 990, or Form 990-EZ, but are no longer required to file because they meet a specific exemption (other than exemption 15 in General Instruction B) should advise their area office so their filing status can be updated.

Exempt organizations that are not sure of their area office may call the IRS at the **Phone Help** line, **1-877-829-5500**. Exempt organizations that stop filing Form 990, or Form 990-EZ, without notifying their area office may receive service center correspondence

inquiring about their returns. When responding to these inquiries, these organizations should give the specific reason for not filing.

### Failure to file and its effect on contributions

Organizations that are eligible to receive tax deductible contributions are listed in **Publication 78**, Cumulative List of Organizations described in Section 170(c) of the Internal Revenue Code of 1986. An organization may be removed from this listing if our records show that it is required to file Form 990, or Form 990-EZ, but it does not file a return or advise us that it is no longer required to file. However, contributions to such an organization may continue to be deductible by the general public until the IRS publishes a notice to the contrary in the Internal Revenue Bulletin.

## B. Organizations Not Required To File

**Note:** *Organizations not required to file this form with the IRS may wish to use it to satisfy state reporting requirements. For details, see General Instruction E.*

The following types of organizations exempt from tax under section 501(a) (section 527 for political organizations) do not have to file Form 990, or Form 990-EZ, with the IRS. However, if the organization chooses to file a Form 990 or Form 990-EZ, it must also attach the schedules and statements described in the instructions for these forms.

1. A church, an interchurch organization of local units of a church, a convention or association of churches, an integrated auxiliary of a church (such as a men's or women's organization, religious school, mission society, or youth group).
2. Church-affiliated organizations that are exclusively engaged in managing funds or maintaining retirement programs and are described in Rev. Proc. 96-10, 1996-1 C.B. 577.
3. A school below college level affiliated with a church or operated by a religious order.
4. A mission society sponsored by, or affiliated with, one or more churches or church denominations, if more than half of the society's activities are conducted in, or directed at, persons in foreign countries.
5. An exclusively religious activity of any religious order.
6. A state institution whose income is excluded from gross income under section 115.
7. An organization described in section 501(c)(1). Section 501(c)(1) organizations are corporations organized under an Act of Congress that are:
  - Instrumentalities of the United States, and
  - Exempt from Federal income taxes.
8. A private foundation exempt under section 501(c)(3) and described in section 509(a). Use **Form 990-PF**, Return of Private Foundation.
9. A black lung benefit trust described in section 501(c)(21). Use **Form 990-BL**, Information and Initial Excise Tax Return for Black Lung Benefit Trusts and Certain Related Persons.
10. A stock bonus, pension, or profit-sharing trust that qualifies under section 401. Use **Form 5500**, Annual Return/Report of Employee Benefit Plan.
11. A religious or apostolic organization described in section 501(d). Use **Form 1065**, U.S. Partnership Return of Income.

12. A foreign organization whose annual gross receipts from sources within the U.S. are normally \$25,000 or less (Rev. Proc. 94-17, 1994-1 C.B. 579). See the \$25,000 gross receipts test in 15c. See also General Instruction A, if the organization received a Form 990 Package.

13. A governmental unit or affiliate of a governmental unit described in Rev. Proc. 95-48, 1995-2 C.B. 418.

14. A political organization that is:

- A state or local committee of a political party;
- A political committee of a state or local candidate;
- A caucus or association of state or local officials;
- An authorized committee (as defined in section 301(6) of the Federal Election Campaign Act of 1971) of a candidate for federal office;
- A national committee (as defined in section 301(14) of the Federal Election Campaign Act of 1971) of a political party;
- A United States House of Representatives or United States Senate campaign committee of a political party committee;
- Required to report under the Federal Election Campaign Act of 1971 as a political committee (as defined in section 301(4) of such Act); or
- An organization described under section 6033(g)(3)(G).

15. An organization whose annual gross receipts are normally \$25,000 or less (but see General Instruction A, if the organization received a Form 990 Package).

**a. Calculating gross receipts.** The organization's gross receipts are the total amount it received from all sources during its annual accounting period, without subtracting any costs or expenses.

**i. Form 990.** Gross receipts are the sum of lines 1d, 2, 3, 4, 5, 6a, 7, 8a (both columns), 9a, 10a, and 11 of Part I. Gross receipts can also be calculated by adding back the amounts on lines 6b, 8b, 9b, and 10b to the total revenue reported on line 12.

**ii. Form 990-EZ.** Gross receipts are the sum of lines 1, 2, 3, 4, 5a, 6a, 7a, and 8 of Part I. Gross receipts can also be calculated by adding back the amounts on lines 5b, 6b, and 7b to the total revenue reported on line 9.

**Example.** On line 9 of its Form 990-EZ for the year 2002, Organization M reported \$50,000 as total revenue. M added back the costs and expenses it had deducted on lines 5b (\$2,000); 6b (\$1,500); and 7b (\$500) to its total revenue of \$50,000 and determined that its gross receipts for the tax year were \$54,000.

**b. Gross receipts when acting as agent.**

If a local chapter of a section 501(c)(8) fraternal organization collects insurance premiums for its parent lodge and merely sends those premiums to the parent without asserting any right to use the funds or otherwise deriving any benefit from collecting them, the local chapter should not include the premiums in its gross receipts. The parent lodge should report them instead. The same treatment applies in other situations in which one organization collects funds merely as an agent for another.

**c. \$25,000 gross receipts test.** An organization's gross receipts are considered normally to be \$25,000 or less if the organization is:

- i. Up to a year old and has received, or donors have pledged to give, \$37,500 or less during its first tax year;

ii. Between 1 and 3 years old and averaged \$30,000 or less in gross receipts during each of its first 2 tax years; or

iii. Three (3) years old or more and averaged \$25,000 or less in gross receipts for the immediately preceding 3 tax years (including the year for which the return would be filed).

## C. Exempt Organization Reference Chart

**Note:** To determine how the instructions for Form 990 and Form 990-EZ apply to you, you must know the Code section under which you are exempt.

| Type of Organization  | I.R.C. Section    |
|---|-------------------|
| Corporations Organized Under Act of Congress . . . . .  | 501(c)(1)         |
| Title Holding Corporations . . . . .  | 501(c)(2)         |
| Charitable, Religious, Educational, Scientific, etc., Organizations . . . . .   | 501(c)(3)         |
| Civic Leagues and Social Welfare Organizations . . . . .  | 501(c)(4)         |
| Labor, Agricultural, and Horticultural Organizations . . . . .  | 501(c)(5)         |
| Business Leagues, etc. . . . .  | 501(c)(6)         |
| Social and Recreation Clubs . . . . .   | 501(c)(7)         |
| Fraternal Beneficiary and Domestic Fraternal Societies and Associations . . . . .   | 501(c)(8) & (10)  |
| Voluntary Employees' Beneficiary Associations . . . . .   | 501(c)(9)         |
| Teachers' Retirement Fund Associations . . . . .  | 501(c)(11)        |
| Benevolent Life Insurance Associations, Mutual Ditch or Irrigation Companies, Mutual or Cooperative Telephone Companies, etc. . . . . | 501(c)(12)        |
| Cemetery Companies . . . . .  | 501(c)(13)        |
| State Chartered Credit Unions, Mutual Reserve Funds . . . . .   | 501(c)(14)        |
| Mutual Insurance Companies or Associations . . . . .  | 501(c)(15)        |
| Cooperative Organizations To Finance Crop Operations . . . . .  | 501(c)(16)        |
| Supplemental Unemployment Benefit Trusts . . . . .  | 501(c)(17)        |
| Employee Funded Pension Trusts (created before 6/25/59) . . . . .   | 501(c)(18)        |
| Organizations of Past or Present Members of the Armed Forces . . . . .  | 501(c)(19) & (23) |
| Black Lung Benefit Trusts . . . . .   | 501(c)(21)        |
| Withdrawal Liability Payment Funds . . . . .  | 501(c)(22)        |
| Title Holding Corporations or Trusts . . . . .  | 501(c)(25)        |
| State-Sponsored Organizations Providing Health Coverage for High-Risk Individuals . . . . .   | 501(c)(26)        |
| State-Sponsored Workmen's Compensation and Insurance and Reinsurance Organizations . . . . .  | 501(c)(27)        |
| Religious and Apostolic Associations . . . . .  | 501(d)            |
| Cooperative Hospital Service Organizations . . . . .  | 501(e)            |
| Cooperative Service Organizations of Operating Educational Organizations . . . . .  | 501(f)            |
| Child Care Organizations . . . . .  | 501(k)            |
| Charitable Risk Pools . . . . .   | 501(n)            |
| Political Organizations . . . . .   | 527               |

## D. Forms and Publications To File or Use

**Personal computer.** You can access the IRS Web Site 24 hours a day, 7 days a week at [www.irs.gov](http://www.irs.gov) to:

- Download forms, instructions, and publications.
- See answers to frequently asked tax questions.
- Order IRS products on-line.
- Search publications on-line by topic or keyword.
- Send us comments or request help via e-mail.
- Sign up to receive local and national tax news by e-mail.

You can also reach us using file transfer protocol at [ftp.irs.gov](ftp://ftp.irs.gov).

**CD-ROM.** Order Pub. 1796, IRS Federal Tax Products on CD-ROM, and get:

- Current year forms, instructions, and publications.
- Prior year forms, instructions, and publications.
- Frequently requested forms that may be filled in electronically, printed out for submission, and saved for recordkeeping.
- The Internal Revenue Bulletin.

Buy the CD-ROM on the Internet at [www.irs.gov/cdorders](http://www.irs.gov/cdorders) from the National Technical Information Service (NTIS) for \$22 (no handling fee), or call 1-877-CDFORMS (1-877-233-6767) toll free to buy the CD-ROM for \$22 (plus a \$5 handling fee).

**By phone and in person.** You can order forms and publications 24 hours a day, 7 days a week, by calling 1-800-TAX-FORM (1-800-829-3676). You can also get most forms and publications at your local IRS office.

**Schedule A (Form 990 or 990-EZ).** Organization Exempt Under Section 501(c)(3) (Except Private Foundation), 501(e), 501(f), 501(k), 501(n), or Section 4947(a)(1) Nonexempt Charitable Trust. The Schedule A (Form 990 or 990-EZ) is filed with Form 990, or Form 990-EZ, for a section 501(c)(3) organization that is not a private foundation (and including an organization described in section 501(e), 501(f), 501(k), or 501(n)). It is also filed with Form 990, or Form 990-EZ, for a section 4947(a)(1) nonexempt charitable trust that is not treated as a private foundation. An organization is not required to file Schedule A (Form 990 or 990-EZ) if its gross receipts are normally \$25,000 or less. See the gross receipts discussion in General Instruction B.

**Schedule B (Form 990, 990-EZ, or 990-PF).** Schedule of Contributors. Schedule B (Form 990, 990-EZ, or 990-PF) is used by all organizations required to file Form 990, 990-EZ, or 990-PF, to provide the contributor information required for line 1 of those forms.

**Forms W-2 and W-3.** Wage and Tax Statement and Transmittal of Wage and Tax Statements.

**Form W-9.** Request for Taxpayer Identification Number and Certification.

**Form 940.** Employer's Annual Federal Unemployment (FUTA) Tax Return.

**Form 941.** Employer's Quarterly Federal Tax Return. Used to report social security, Medicare, and income taxes withheld by an employer and social security and Medicare taxes paid by an employer.

**Form 943.** Employer's Annual Tax Return for Agricultural Employees.

**Trust Fund Recovery Penalty.** If certain excise, income, social security, and Medicare taxes that must be collected or withheld are not collected or withheld, or these taxes are not paid to the IRS, a Trust Fund Recovery Penalty

may apply. The Trust Fund Recovery Penalty may be imposed on all persons (including volunteers) who the IRS determines were responsible for collecting, accounting for, and paying over these taxes, and who acted willfully in not doing so.

This penalty does not apply to volunteer, unpaid members of any board of trustees or directors of a tax-exempt organization, if these members are solely serving in an honorary capacity, do not participate in the day-to-day or financial activities of the organization, and do not have actual knowledge of the failure to collect, account for, and pay over these taxes. However, the preceding sentence does not apply if it results in no person being liable for the penalty.

The penalty is equal to the unpaid trust fund tax. See the instructions for **Pub. 15 (Circular E)**, Employer's Tax Guide, for more details, including the definition of responsible persons.

**Form 990-T.** Exempt Organization Business Income Tax Return. Filed separately for organizations with gross income of \$1,000 or more from business unrelated to the organization's exempt purpose. The Form 990-T is also filed to pay the section 6033(e)(2) proxy tax. For Form 990, see line 85 and its instructions; for Form 990-EZ, see line 35 and its instructions.

**Form 990-W.** Estimated Tax on Unrelated Business Taxable Income for Tax-Exempt Organizations.

**Form 1040.** U.S. Individual Income Tax Return.

**Form 1041.** U.S. Income Tax Return for Estates and Trusts. Required of section 4947(a)(1) nonexempt charitable trusts that also file Form 990 or Form 990-EZ. However, if such a trust does not have any taxable income under Subtitle A of the Code, it can file Form 990, or Form 990-EZ, and does not have to file Form 1041 to meet its section 6012 filing requirement. If this condition is met, complete Form 990, or Form 990-EZ, and do not file Form 1041.

A section 4947(a)(1) nonexempt charitable trust that normally has gross receipts of not more than \$25,000 (see the gross receipts discussion in General Instruction B) and has no taxable income under Subtitle A must complete line 92 and the signature block on page 6 of the Form 990. On the Form 990-EZ, complete line 43 and the signature block on page 2 of the return. In addition, complete only the following items in the heading of Form 990 or Form 990-EZ:

**Item**

- A** Tax year (fiscal year or short period, if applicable)
- B** Applicable checkboxes
- C** Name and address
- D** Employer identification number (EIN)
- J** Section 4947(a)(1) nonexempt charitable trust box.

**Form 1096.** Annual Summary and Transmittal of U.S. Information Returns.

**Form 1098 series.** Information returns to report student loan interest and tuition and related expenses received.

**Form 1099 series.** Information returns to report acquisitions or abandonments of secured property, proceeds from broker and barter exchange transactions, cancellation of debt, dividends and distributions, certain government and state qualified tuition program payments, taxable distributions from cooperatives, interest payments, payments of long-term care and accelerated death benefits, miscellaneous income payments, distributions from a medical savings account, original issue

discount, distributions from pensions, annuities, retirement or profit-sharing plans, IRAs, insurance contracts, etc., and proceeds from real estate transactions. Also, use certain of these returns to report amounts that were received as a nominee on behalf of another person.

**Form 1120-POL.** U.S. Income Tax Return for Certain Political Organizations.

**Form 1128.** Application To Adopt, Change, or Retain a Tax Year.

**Form 3115.** Application for Change in Accounting Method.

**Form 4506-A.** Request for Public Inspection or Copy of Exempt or Political Organization IRS Form.

**Form 4562.** Depreciation and Amortization.

**Form 4720.** Return of Certain Excise Taxes on Charities and Other Persons Under Chapters 41 and 42 of the Internal Revenue Code.

**Form 5500.** Annual Return/Report of Employee Benefit Plan. Employers who maintain pension, profit-sharing, or other funded deferred compensation plans are generally required to file the Form 5500. This requirement applies whether or not the plan is qualified under the Internal Revenue Code and whether or not a deduction is claimed for the current tax year.

**Form 5768.** Election/Revocation of Election by an Eligible Section 501(c)(3) Organization To Make Expenditures To Influence Legislation.

**Form 8282.** Donee Information Return. Required of the donee of "charitable deduction property" who sells, exchanges, or otherwise disposes of the property within 2 years after receiving the property.

The form is also required of any successor donee who disposes of charitable deduction property within 2 years after the date that the donor gave the property to the original donee. It does not matter who gave the property to the successor donee. It may have been the original donee or another successor donee.

**Form 8283.** Noncash Charitable Contributions.

**Form 8300.** Report of Cash Payments Over \$10,000 Received in a Trade or Business. Used to report cash amounts in excess of \$10,000 that were received in a single transaction (or in two or more related transactions) in the course of a trade or business (as defined in section 162).

However, if the organization receives a charitable cash contribution in excess of \$10,000, it is not subject to the reporting requirement since the funds were not received in the course of a trade or business.

**Form 8822.** Change of Address. Used to notify the IRS of a change in mailing address that occurs after the return is filed.

**Form 8868.** Application for Extension of Time To File an Exempt Organization Return.

**Form 8870.** Information Return for Transfers Associated With Certain Personal Benefit Contracts. Used to identify those personal benefit contracts for which funds were transferred to the organization, directly or indirectly, as well as the transferors for, and beneficiaries of, those contracts.

**Form 8871.** Political Organization Notice of Section 527 Status.

**Form 8872.** Political Organization Report of Contributions and Expenditures.

**Publication 463.** Travel, Entertainment, Gift, and Car Expenses.

**Publication 525.** Taxable and Nontaxable Income.

**Publication 526.** Charitable Contributions.

**Publication 538.** Accounting Periods and Methods.

**Publication 598.** Tax on Unrelated Business Income of Exempt Organizations.

**Publication 910.** Guide to Free Tax Services.

**Publication 946.** How To Depreciate Property.

**Publication 1771.** Charitable Contributions—Substantiation and Disclosure Requirements.

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## E. Use of Form 990, or Form 990-EZ, To Satisfy State Reporting Requirements

Some states and local government units will accept a copy of Form 990, or Form 990-EZ, Schedule A (Form 990 or 990-EZ), and Schedule B (Form 990, 990-EZ, or 990-PF) in place of all or part of their own financial report forms. The substitution applies primarily to section 501(c)(3) organizations, but some of the other types of section 501(c) organizations are also affected.

If you use Form 990, or Form 990-EZ, to satisfy state or local filing requirements, such as those under state charitable solicitation acts, note the following—

### Determine state filing requirements

You should consult the appropriate officials of all states and other jurisdictions in which the organization does business to determine their specific filing requirements. "Doing business" in a jurisdiction may include any of the following: **(a)** soliciting contributions or grants by mail or otherwise from individuals, businesses, or other charitable organizations; **(b)** conducting programs; **(c)** having employees within that jurisdiction; **(d)** maintaining a checking account; or **(e)** owning or renting property there.

### Monetary tests may differ

Some or all of the dollar limitations applicable to Form 990, or Form 990-EZ, when filed with the IRS may not apply when using Form 990, or Form 990-EZ, in place of state or local report forms. Examples of the IRS dollar limitations that do not meet some state requirements are the \$25,000 gross receipts minimum that creates an obligation to file with the IRS (see the gross receipts discussion in General Instruction B) and the \$50,000 minimum for listing professional fees in Part II of Schedule A (Form 990 or 990-EZ).

### Additional information may be required

State or local filing requirements may require you to attach to Form 990, or Form 990-EZ, one or more of the following: **(a)** additional financial statements, such as a complete analysis of functional expenses or a statement of changes in net assets; **(b)** notes to financial statements; **(c)** additional financial schedules; **(d)** a report on the financial statements by an independent accountant; and **(e)** answers to additional questions and other information. Each jurisdiction may require the additional material to be presented on forms they provide. The additional information does not have to be submitted with the Form 990, or Form 990-EZ, filed with the IRS.

Even if the Form 990, or Form 990-EZ, that the organization files with the IRS is accepted by the IRS as complete, a copy of the same return filed with a state will not fully satisfy that state's filing requirement if required information is not provided, including any of the additional information discussed above, or if the state determines that the form was not completed by following the applicable Form 990, or Form

990-EZ, instructions or supplemental state instructions. If so, the organization may be asked to provide the missing information or to submit an amended return.

### Use of audit guides may be required

To ensure that all organizations report similar transactions uniformly, many states require that contributions, gifts, grants, etc., and functional expenses be reported according to the AICPA industry audit guide, *Not-For-Profit Organizations* (New York, NY, AICPA, 2001), supplemented by *Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations* (Washington, DC, National Health Council, Inc., 1998, 4th edition).

### Donated services and facilities

Even though reporting donated services and facilities as items of revenue and expense is called for in certain circumstances by the two publications named above, many states and the IRS do not permit the inclusion of those amounts in Parts I and II of Form 990 or Part I of Form 990-EZ. The optional reporting of donated services and facilities is discussed in the instructions for Part III for both Form 990 and Form 990-EZ.

### Amended returns

If the organization submits supplemental information or files an amended Form 990, or Form 990-EZ, with the IRS, it must also send a copy of the information or amended return to any state with which it filed a copy of Form 990, or Form 990-EZ, originally to meet that state's filing requirement.

If a state requires the organization to file an amended Form 990, or Form 990-EZ, to correct conflicts with Form 990, or Form 990-EZ, instructions, it must also file an amended return with the IRS.

### Method of accounting

Most states require that all amounts be reported based on the accrual method of accounting. See also General Instruction G.

### Time for filing may differ

The deadline for filing Form 990, or Form 990-EZ, with the IRS differs from the time for filing reports with some states.

### Public inspection

The Form 990, or Form 990-EZ, information made available for public inspection by the IRS may differ from that made available by the states. See the discussion for the required schedule of contributors (Schedule B (Form 990, 990-EZ, or 990-PF), in General Instruction L.

## F. Other Forms as Partial Substitutes for Form 990 or Form 990-EZ

Except as provided below, the Internal Revenue Service will not accept any form as a substitute for one or more parts of Form 990 or Form 990-EZ.

### Labor organizations (section 501(c)(5))

A labor organization that files **Form LM-2**, Labor Organization Annual Report, or the shorter **Form LM-3**, Labor Organization Annual Report, with the U.S. Department of Labor (DOL) can attach a copy of the completed DOL form to Form 990, or Form 990-EZ, to provide some of the information required by Form 990 or Form 990-EZ. This substitution is not permitted if the organization files a DOL report that consolidates its financial statements with those of one or more separate subsidiary organizations.

## Employee benefit plans (section 501(c)(9), (17), or (18))

An employee benefit plan may be able to substitute Form 5500 for part of Form 990 or Form 990-EZ. The substitution can be made if the organization filing Form 990, or Form 990-EZ, and the plan filing Form 5500, meet all the following tests:

1. The Form 990, or Form 990-EZ, filer is organized under section 501(c)(9), (17), or (18);
2. The Form 990, or Form 990-EZ, filer and Form 5500 filer are identical for financial reporting purposes and have identical receipts, disbursements, assets, liabilities, and equity accounts;
3. The employee benefit plan does not include more than one section 501(c) organization, and the section 501(c) organization is not a part of more than one employee benefit plan;
4. The organization's accounting year and the employee plan year are the same. If they are not, you may want to change the organization's accounting year, as explained in General Instruction G, so it will coincide with the plan year.

### Allowable substitution areas

Whether an organization files Form 990, or Form 990-EZ, for a labor organization or for an employee benefit plan, the areas of Form 990, or Form 990-EZ, for which other forms can be substituted are the same. These areas are:

#### Form 990

- Lines 13 through 15 of Part I (but complete lines 16 through 21);
- Part II; and
- Part IV (but complete lines 59, 66, and 74, columns (A) and (B)).

#### Form 990-EZ

- Lines 10 through 16 of Part I (but complete lines 17 through 21).
- Part II (but complete lines 25 through 27, columns (A) and (B)).

If an organization substitutes Form LM-2 or LM-3 for any of the Form 990, or Form 990-EZ, Parts or line items mentioned above, it must attach a reconciliation sheet to show the relationship between the amounts on the DOL forms and the amounts on Form 990 or Form 990-EZ. This is particularly true of the relationship of disbursements shown on the DOL forms and the total expenses on line 17, Part I, of both Form 990 and Form 990-EZ. The organization must make this reconciliation because the cash disbursements section of the DOL forms includes nonexpense items. If the organization substitutes Form LM-2, be sure to complete its separate schedule of expenses.

## G. Accounting Periods and Methods

**Note:** For further information, see Pub. 538.

### Accounting periods

**Calendar year.** Use the 2002 Form 990, or Form 990-EZ, to report on the 2002 calendar year accounting period. A calendar year accounting period begins on January 1 and ends on December 31.

**Fiscal year.** If the organization has established a fiscal year accounting period, use the 2002 Form 990, or Form 990-EZ, to report on the organization's fiscal year that began in 2002 and ended 12 months later. A fiscal year accounting period should normally coincide with the natural operating cycle of the organization. Be certain to indicate in the heading of Form 990, or Form 990-EZ, the date the organization's fiscal year began in

2002 and the date the fiscal year ended in the year 2003.

**Short period.** Use the 2002 Form 990, or Form 990-EZ, to report on a short accounting period (less than 12 months) that **began in 2002** and ended November 30, 2003, or earlier.

Because the Form 990, or Form 990-EZ, for the year 2003 may not be distributed until the year 2004, use the prior year form, the 2002 Form 990, or Form 990-EZ, to report on a short accounting period that begins in the year 2003 and ends November 30, 2003, or earlier. Strike the 2002 year on the form and show the year 2003.

If the organization changes its accounting period, it must file a return on Form 990, or Form 990-EZ, for the short period resulting from the change. Write "Change of Accounting Period" at the top of this short-period return.

If the organization changed its accounting period within the 10-calendar-year period that includes the beginning of the short period, and it had a Form 990, or Form 990-EZ, filing requirement at any time during that 10-year period, it must also attach a Form 1128 to the short-period return. See Rev. Proc. 85-58, 1985-2 C.B. 740.

**Group return.** When affiliated organizations authorize their central organization to file a group return for them, the accounting period of the affiliated organizations and the central organization must be the same. See General Instruction R.

### Accounting methods

Unless instructed otherwise, the organization should generally use the same accounting method on the return to figure revenue and expenses as it regularly uses to keep its books and records. To be acceptable for Form 990, or Form 990-EZ, reporting purposes, however, the method of accounting used must clearly reflect income.

Generally, the organization must file Form 3115 to change its accounting method. Notice 96-30, 1996-1 C.B. 378, provides relief from filing Form 3115 to section 501(c) organizations that change their methods of accounting to comply with the provisions of SFAS 116, *Accounting for Contributions Received and Contributions Made*. In SFAS 116, the Financial Accounting Standards Board revised certain generally accepted accounting principles relating to contributions received and contributions awarded by not-for-profit organizations.

A not-for-profit organization that changes its method of accounting for Federal income tax purposes to conform to the method provided in SFAS 116 should report any adjustment required by section 481(a) on line 20 of Form 990, or Form 990-EZ, as a net asset adjustment made during the year the change is made. The adjustment should be identified as the effect of changing to the method provided in SFAS 116. The beginning of year statement of financial position (balance sheet) should not be restated to reflect any prior period adjustments.

**State reporting.** If the organization prepares Form 990, or Form 990-EZ, for state reporting purposes, it may file an identical return with the IRS even though the return does not agree with the books of account, unless the way one or more items are reported on the state return conflicts with the instructions for preparing Form 990, or Form 990-EZ, for filing with the IRS.

**Example 1.** The organization maintains its books on the cash receipts and disbursements method of accounting but prepares a state

return based on the accrual method. It could use that return for reporting to the IRS.

**Example 2.** A state reporting requirement requires the organization to report certain revenue, expense, or balance sheet items differently from the way it normally accounts for them on its books. A Form 990, or Form 990-EZ, prepared for that state is acceptable for the IRS reporting purposes if the state reporting requirement does not conflict with the Form 990, or Form 990-EZ, instructions.

An organization should keep a reconciliation of any differences between its books of account and the Form 990, or Form 990-EZ, that is filed.

Most states that accept Form 990, or Form 990-EZ, in place of their own forms require that all amounts be reported based on the accrual method of accounting. For further information, see General Instruction E.

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## H. When and Where To File

File Form 990, or Form 990-EZ, by the 15th day of the 5th month after the organization's accounting period ends. If the regular due date falls on a Saturday, Sunday, or legal holiday, file on the next business day. A business day is any day that is not a Saturday, Sunday, or legal holiday.

If the organization is liquidated, dissolved, or terminated, file the return by the 15th day of the 5th month after the liquidation, dissolution, or termination.

If the return is not filed by the due date (including any extension granted), attach a statement giving the reasons for not filing on time.

Send the return to the Internal Revenue Service Center, Ogden, UT 84201-0027.

**Private delivery services.** You can use certain private delivery services designated by the IRS to meet the "timely mailing as timely filing/paying" rule for tax returns and payments. The most recent list of designated private delivery services was published by the IRS in September 2002. The list includes only the following:

- Airborne Express (Airborne): Overnight Air Express Service, Next Afternoon Service, Second Day Service.
- DHL Worldwide Express (DHL): DHL "Same Day" Service, DHL USA Overnight.
- Federal Express (FedEx): FedEx Priority Overnight, FedEx Standard Overnight, FedEx 2Day, FedEx International Priority, FedEx International First.
- United Parcel Service (UPS): UPS Next Day Air, UPS Next Day Air Saver, UPS 2nd Day Air, UPS 2nd Day Air A.M., UPS Worldwide Express Plus, and UPS Worldwide Express.

The private delivery service can tell you how to get written proof of the mailing date.

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## I. Extension of Time To File

Use Form 8868 to request an automatic 3-month extension of time to file. Use Form 8868 also to apply for an additional (not automatic) 3-month extension if the original 3 months was not enough time. To obtain this additional extension of time to file, you must show reasonable cause for the additional time requested. See the instructions for Form 8868.

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## J. Amended Return/Final Return

To change the organization's return for any year, file a new return including any required attachments. Use the revision of Form 990, or Form 990-EZ, applicable to the year being amended. The amended return must provide

all the information called for by the form and instructions, not just the new or corrected information. Check the "Amended return" box in the heading of the return.

The organization may file an amended return at any time to change or add to the information reported on a previously filed return for the same period. It must make the amended return available for public inspection for 3 years from the date of filing or 3 years from the date the original return was due, whichever is later.

The organization must also send a copy of the information or amended return to any state with which it filed a copy of Form 990, or Form 990-EZ, originally to meet that state's filing requirement.

Use Form 4506-A to obtain a copy of a previously filed return. You can obtain blank forms for prior years by calling **1-800-TAX-FORM** (1-800-829-3676).

If the return is a final return, see the specific instructions for Form 990 for line 79, Part VI. For Form 990-EZ, see the specific instructions for line 36, Part V.

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## K. Penalties

### Against the organization

Under section 6652(c)(1)(A), a penalty of \$20 a day, not to exceed the smaller of \$10,000 or 5% of the gross receipts of the organization for the year, may be charged when a return is filed late, unless the organization can show that the late filing was due to reasonable cause. Organizations with annual gross receipts exceeding \$1 million are subject to a penalty of \$100 for each day the failure continues (with a maximum penalty with respect to any one return of \$50,000). The penalty begins on the due date for filing the Form 990 or Form 990-EZ.

The penalty may also be charged if the organization files an incomplete return. To avoid having to supply missing information later, be sure to complete all applicable line items; answer "Yes," "No," or "N/A" (not applicable) to each question on the return; make an entry (including a zero when appropriate) on all **total** lines; and enter "None" or "N/A" if an entire part does not apply.

Also, this penalty may be imposed if the organization's return contains incorrect information. **For example**, an organization that reports contributions net of related fundraising expenses may be subject to this penalty.

Use of a paid preparer does not relieve the organization of its responsibility to file a complete and accurate return.

### Against responsible person(s)

If the organization does not file a complete return or does not furnish correct information, the IRS will send the organization a letter that includes a fixed time to fulfill these requirements. After that period expires, the person failing to comply will be charged a penalty of \$10 a day. The maximum penalty on all persons for failures with respect to any one return shall not exceed \$5,000 (section 6652(c)(1)(B)(ii)).

Any person who does not comply with the public inspection requirements, as discussed in General Instruction M, will be assessed a penalty of \$20 for each day that inspection was not permitted, up to a maximum of \$10,000 for each return. The penalties for failure to comply with the public inspection requirements for applications is the same as those for annual returns, except that the \$10,000 limitation does

not apply (sections 6652(c)(1)(C) and (D)). Any person who willfully fails to comply with the public inspection requirements for annual returns or exemption applications will be subject to an additional penalty of \$5,000 (section 6685).

There are also penalties—fines and imprisonment—for willfully not filing returns and for filing fraudulent returns and statements with the IRS (sections 7203, 7206, and 7207). States may impose additional penalties for failure to meet their separate filing requirements. See also the discussion of the Trust Fund Recovery Penalty, General Instruction D.

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## L. Contributions

### Schedule B (Form 990, 990-EZ, or 990-PF), Schedule of Contributors

Schedule B (Form 990, 990-EZ, or 990-PF) is a required attachment for the Form 990, 990-EZ, or 990-PF, and is used to report on tax-deductible and non-tax-deductible contributions. See the instructions for Schedule B for the public inspection rules applicable to that form. See also the Specific Instructions for both Form 990 and Form 990-EZ, under **Completing the Heading . . .** where the instructions are keyed to items in the heading of Form 990 or Form 990-EZ.

### Solicitations of nondeductible contributions

Any fundraising solicitation by or on behalf of any section 501(c) or 527 organization that is not eligible to receive contributions deductible as charitable contributions for Federal income tax purposes must include an explicit statement that contributions or gifts to it are not deductible as charitable contributions. The statement must be in an easily recognizable format whether the solicitation is made in written or printed form, by television or radio, or by telephone. This provision applies only to those organizations whose annual gross receipts are normally more than \$100,000 (section 6113 and Notice 88-120, 1988-2 C.B. 454).

Failure to disclose that contributions are not deductible could result in a penalty of \$1,000 for each day on which a failure occurs. The maximum penalty for failures by any organization, during any calendar year, shall not exceed \$10,000. In cases where the failure to make the disclosure is due to intentional disregard of the law, more severe penalties apply. No penalty will be imposed if the failure is due to reasonable cause (section 6710).

### Keeping fundraising records for tax-deductible contributions

Section 501(c) organizations that are eligible to receive tax-deductible contributions under section 170(c) of the Code must keep sample copies of their fundraising materials, such as:

- Dues statements,
- Fundraising solicitations,
- Tickets,
- Receipts, or
- Other evidence of payments received in connection with fundraising activities.

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| IF . . . | THEN . . . |
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| Organizations advertise their fundraising events, | They must keep samples of the advertising copy. |
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Organizations use radio or television to make their solicitations, They must keep samples of:  
**(a)** Scripts,  
**(b)** Transcripts, or  
**(c)** Other evidence of on-air solicitations.

Organizations use outside fundraisers, They must keep samples of the fundraising materials used by the outside fundraisers.

For each fundraising event, organizations must keep records to show that portion of any payment received from patrons that is not deductible; that is, the retail value of the goods or services received by the patrons. See "Disclosure statement for quid pro quo contributions" below.

### Noncash contributions

See the instructions for Schedule B (Form 990, 990-EZ, or 990-PF).

If the organization received a partially completed Form 8283 from a donor, complete it and return it so the donor can get a charitable contribution deduction. Keep a copy for your records. See also the reference to Form 8282 in General Instruction D.

### Substantiation and disclosure requirements for charitable contributions

**Acknowledgment to substantiate charitable contributions.** An organization (donee) should be aware that a donor of a charitable contribution of \$250 or more cannot take an income tax deduction unless the donor obtains the organization's acknowledgment to substantiate the charitable contribution.

The organization's acknowledgment must:

1. Be written
2. Be contemporaneous
3. State the amount of any cash it received
4. State:
  - a. Whether the organization gave the donor any intangible religious benefits (no valuation needed)
  - b. Whether or not the organization gave the donor any goods or services in return for the donor's contribution (a quid pro quo contribution)
5. Describe goods or services the organization:
  - a. Received (no valuation needed)
  - b. Gave (good faith estimate needed).

**Exception.** An organization need not make a good faith estimate of a quid pro quo contribution if the goods or services given to a donor are:

- Insubstantial in value
- Certain membership benefits for \$75 or less per year
- Certain goods or services given to the donor's employees or partners.

**Disclosure statement for quid pro quo contributions.** If the organization receives a quid pro quo contribution of more than \$75, an organization must provide a disclosure statement to the donor. The organization's disclosure statement must:

1. Be written
2. Estimate in good faith the organization's goods or services given in return for donor's contribution
3. Describe, but need not value, certain goods or services given donor's employees or partners
4. Inform donor that a deductible charitable contribution deduction is limited as follows:

Donor's contribution

Less: Organization's money, and goods or services given in return

Equals: Donor's deductible charitable contribution.

**Exception:** No disclosure statement required if the organization gave:

1. Goods or services of insubstantial value
2. Certain membership benefits, or
3. An intangible religious benefit.

See Regulations sections 1.170A-1, 1.170A-13, and 1.6115-1.

**Certain goods or services disregarded for substantiation and disclosure purposes.**

**Goods or services with insubstantial value.** Generally, under section 170, the deductible amount of a contribution is determined by taking into account the fair market value, not the cost to the charity, of any benefits received in return. However, the cost to the charity may be used in determining whether the benefits are insubstantial. See below.

**Cost basis.** If a taxpayer makes a payment of \$39.50 or more to a charity and receives only token items in return, the items have insubstantial value if they:

- Bear the charity's name or logo, and
- Have an aggregate cost to the charity of \$7.90 or less ("low-cost article" amount of section 513(h)(2)).

**Fair market value basis.** If a taxpayer makes a payment to a charitable organization in a fundraising campaign and receives benefits with a fair market value of not more than 2% of the amount of the payment, or \$79, whichever is less, the benefits received have insubstantial value in determining the taxpayer's contribution.

The dollar amounts given above are applicable to tax year 2002. They are adjusted annually for inflation.

When a donee organization provides a donor only with goods or services having insubstantial value under Rev. Proc. 2001-59, 2001-52 I.R.B. 623 (2001-2 C.B. 623) (and any successor documents), the contemporaneous written acknowledgment may indicate that no goods or services were provided in exchange for the donor's payment.

**Certain membership benefits.** Other goods or services that are disregarded for substantiation and disclosure purposes are annual membership benefits offered to a taxpayer in exchange for a payment of \$75 or less per year that consist of:

1. Any rights or privileges that the taxpayer can exercise frequently during the membership period such as:
  - a. Free or discounted admission to the organization's facilities or events,
  - b. Free or discounted parking,
2. Admission to events that are:
  - a. Open only to members, and are, per person,
  - b. Within the "low-cost article" limitation.

### Examples.

1. E offers a basic membership benefits package for \$75. The package gives members the right to buy tickets in advance, free parking, and a gift shop discount of 10%. E's \$150 preferred membership benefits package also includes a \$20 poster. Both the basic and preferred membership packages are for a 12-month period and include about 50 productions. E offers F, a patron of the arts, the preferred membership benefits in return for a payment of \$150 or more. F accepts the

preferred membership benefits package for \$300. E's written acknowledgment satisfies the substantiation requirement if it describes the poster, gives a good faith estimate of its fair market value (\$20), and disregards the remaining membership benefits.

2. If F received only the basic membership package for its \$300 payment, E's acknowledgment need state only that no goods or services were provided.

3. G Theater Group performs four plays. Each play is performed twice. Nonmembers can purchase a ticket for \$15. For a \$60 membership fee, however, members are offered free admission to any of the performances. H makes a payment of \$350 and accepts this membership benefit. Because of the limited number of performances, the membership privilege cannot be exercised frequently. Therefore, G's acknowledgment must describe the free admission benefit and estimate its value in good faith.

**Certain goods or services provided to donor's employees or partners.** Certain goods or services provided to employees or partners of donors may be disregarded for substantiation and disclosure purposes.

Describe such goods or services. A good faith estimate is not needed.

**Example.** Museum J offers a basic membership benefits package for \$40. It includes free admission and a 10% gift shop discount. Corporation K makes a \$50,000 payment to J and in return, J offers K's employees free admission, a tee shirt with J's logo that costs J \$4.50, and a 25% gift shop discount. Because the free admission is offered in both benefit packages and the value of the tee shirts is insubstantial, K's written acknowledgment need not value the free admission benefit or the tee shirts. However, because the 25% gift shop discount to K's employees differs from the 10% discount offered in the basic membership benefits package, K's written acknowledgment must describe the 25% discount, but need not estimate its value.

### Definitions.

**Substantiation.** It is the responsibility of the donor:

- To value a donation, and
- To obtain an organization's written acknowledgment substantiating the donation.

There is no prescribed format for the organization's written acknowledgment of a donation. Letters, postcards, or computer-generated forms may be acceptable. The acknowledgment must, however, provide sufficient information to substantiate the amount of the deductible contribution.

The organization may either provide:

- Separate statements for each contribution of \$250 or more, or
- Furnish periodic statements substantiating contributions of \$250 or more.

Separate contributions of less than \$250 are not subject to the requirements of section 170(f)(8), regardless of whether the sum of the contributions made by a taxpayer to a donee organization during a tax year equals \$250 or more.

**Contemporaneous.** A written acknowledgment is contemporaneous if the donor obtains it on or before the earlier of:

- The date the donor files the original return for the tax year in which the contribution was made; or
- The due date (including extensions) for filing the donor's original return for that year.

**Substantiation of payroll contributions.** An organization may substantiate a payroll contribution by:

- A pay stub, Form W-2, or other document showing a contribution to a donee organization; and
- A pledge card or other document from the donee organization stating that organization provides no goods or services for any payroll contributions.

The amount withheld from each payment of wages to a taxpayer is treated as a separate contribution.

**Substantiation of payments to a college or university for the right to purchase tickets to athletic events.** The right to purchase tickets for an athletic event is valued at 20% of the payment.

**Example.** When a taxpayer pays \$312.50 for the right to purchase tickets for an athletic event, the right is valued at \$62.50. The remaining \$250 is a charitable contribution that the taxpayer must substantiate.

**Substantiation of matched payments.** If a taxpayer's payment to a donee organization is matched by another payor, and the taxpayer receives goods or services in consideration for its payment and some or all of the matching payment, those goods or services will be treated as provided in consideration for the taxpayer's payment and not in consideration for the matching payment.

**Disclosure statement.** An organization must provide a written disclosure statement to donors who make a payment, described as a "quid pro quo contribution," in excess of \$75 (section 6115). This requirement is separate from the written substantiation acknowledgment a donor needs for deductibility purposes. While, in certain circumstances, an organization may be able to meet both requirements with the same written document, an organization must be careful to satisfy the section 6115 written disclosure statement requirement in a timely manner because of the penalties involved.

**Quid pro quo contribution.** A "quid pro quo contribution" is a payment that is given both as a contribution and as a payment for goods or services provided by the donee organization.

**Example.** A donor gives a charity \$100 in consideration for a concert ticket valued at \$40 (a quid pro quo contribution). In this example, \$60 would be deductible. Because the donor's payment exceeds \$75, the organization must furnish a disclosure statement even though the taxpayer's deductible amount does not exceed \$75. Separate payments of \$75 or less made at different times of the year for separate fundraising events will not be aggregated for purposes of the \$75 threshold.

**Good faith estimate.** An organization may use any reasonable method in making a good faith estimate of the value of goods or services provided by an organization in consideration for a taxpayer's payment to that organization. A good faith estimate of the value of goods or services that are not generally available in a commercial transaction may be determined by reference to the fair market value of similar or comparable goods or services. Goods or services may be similar or comparable even though they do not have the unique qualities of the goods or services that are being valued.

**Goods or services.** Goods or services mean:

- Cash,
- Property,
- Services,
- Benefits, and
- Privileges.

**In consideration for.** A donee organization provides goods or services in

consideration for a taxpayer's payment if, at the time the taxpayer makes the payment to the donee organization, the taxpayer receives, or expects to receive, goods or services in exchange for that payment.

Goods or services a donee organization provides in consideration for a payment by a taxpayer include goods or services provided in a year other than the year in which the donor makes the payment to the donee organization.

**Intangible religious benefits.** Intangible religious benefits must be provided by organizations organized exclusively for religious purposes.

**Examples include:**

- Admission to a religious ceremony, and
- *De minimis* tangible benefits, such as wine, provided in connection with a religious ceremony.

**Distributing organization as donee.** An organization described in section 170(c), or an organization described as a Principal Combined Fund Organization for purposes of the Combined Federal Campaign, that receives a payment made as a contribution is treated as a donee organization even if the organization distributes the amount received to one or more organizations described in section 170(c).

**Penalties.** A charity that knowingly provides a false substantiation acknowledgment to a donor may be subject to the penalties under section 6701 for aiding and abetting an understatement of tax liability.

Charities that fail to provide the required disclosure statement for a quid pro quo contribution of more than \$75 will incur a penalty of \$10 per contribution, not to exceed \$5,000 per fundraising event or mailing. The charity may avoid the penalty if it can show that the failure was due to reasonable cause (section 6714).

## M. Public Inspection of Returns, etc.

### Through the IRS

Use Form 4506-A to request:

- A copy of an exempt or political organization's return, report, notice, or exemption application;
- An inspection of a return, report, notice, or exemption application at an IRS office.

The IRS can provide copies of exempt organization returns on a compact disk (CD-ROM). Requesters can order the complete set (all Forms 990 and 990-EZ or all Forms 990-PF filed for a year) or a partial set by state or by month. For more information on the cost and how to order CD-ROMs, call the toll-free **Phone-Help** number (1-877-829-5500) or write to the IRS in Cincinnati, OH at the address in General Instruction A.

The IRS may not disclose portions of an exemption application relating to any trade secrets, etc. See the instructions for Schedule B (Form 990, 990-EZ, or 990-PF) that discuss the disclosure of that schedule.

You can only request Forms 990 or 990-EZ for section 527 organizations for tax years beginning after June 30, 2000.

You may inspect a return, report, notice, or exemption application at an IRS office free of charge. You may also obtain a copy of these items through the organization as discussed in the following section.

### Through the organization

**Public inspection and distribution of returns and reports for a political**

**organization.** Section 527 political organizations required to file Form 990, or Form 990-EZ, must, in general, make their Form 8871, 8872, 990, or 990-EZ available for public inspection in the same manner as annual information returns of section 501(c) organizations and 4947(a)(1) nonexempt charitable trusts are made available. See the public inspection rules for "tax-exempt organizations" below. Generally, Form 8871 and Form 8872 are available for inspection and printing from the Internet. The Web site address for both of these forms is <http://eforms.irs.gov>.

Note that a section 527 political organization (and an organization filing Form 990-PF) must disclose their Schedule B (Form 990, 990-EZ, or 990-PF), Schedule of Contributors. See the instructions for Schedule B.

The penalties discussed in General Instruction K also apply to section 527 political organizations (Rev. Rul. 2000-49, 2000-44 I.R.B. 430).

**Public inspection and distribution of applications for tax exemption and annual information returns of tax-exempt organizations.** Under Regulations sections 301.6104(d)-1 through 301.6104(d)-3, a tax-exempt organization must:

- Make its application for recognition of exemption and its annual information returns available for public inspection without charge at its principal, regional and district offices during regular business hours.
- Make each annual information return available for a period of 3 years beginning on the date the return is required to be filed (determined with regard to any extension of time for filing) or is actually filed, whichever is later.
- Provide a copy without charge, other than a reasonable fee for reproduction and actual postage costs, of all or any part of any application or return required to be made available for public inspection to any individual who makes a request for such copy in person or in writing (except as provided in Regulations sections 301.6104(d)-2 and -3).

### Definitions.

**Tax-exempt organization** is any organization that is described in section 501(c) or (d) and is exempt from taxation under section 501(a). The term tax-exempt organization also includes any section 4947(a)(1) nonexempt charitable trust or nonexempt private foundation that is subject to the reporting requirements of section 6033.

**Application for tax exemption** includes (except as described later):

- Any prescribed application form (such as Form 1023 or Form 1024),
- All documents and statements the IRS requires an applicant to file with the form,
- Any statement or other supporting document submitted in support of the application, and
- Any letter or other document issued by the IRS concerning the application.

"Application for tax exemption" **does not** include:

- Any application for tax exemption filed before July 15, 1987, unless the organization filing the application had a copy of the application on July 15, 1987;
- In the case of a tax-exempt organization other than a private foundation, the name and address of any contributor to the organization; or
- Any material that is not available for public inspection under section 6104.

**Annual information return** includes:

- An exact copy of the Form 990, or Form 990-EZ filed by a tax-exempt organization as required by section 6033.
- Any amended return the organization files with the IRS after the date the original return is filed.

The copy must include all information furnished to the IRS on Form 990, or Form 990-EZ, as well as all schedules, attachments and supporting documents, **except** for the name and address of any contributor to the organization. See the instructions for Schedule B (Form 990, 990-EZ, or 990-PF).

**Annual returns more than 3 years old.**

An annual information return does not include any return after the expiration of 3 years from the date the return is required to be filed (including any extension of time that has been granted for filing such return) or is actually filed, whichever is later.

If an organization files an amended return, however, the amended return must be made available for a period of 3 years beginning on the date it is filed with the IRS.

**Local or subordinate organizations.** For rules relating to annual information returns of local or subordinate organizations, see Regulations section 301.6104(d)-1(f)(2).

**Regional or district offices.** A regional or district office is any office of a tax-exempt organization, other than its principal office, that has paid employees, whether part-time or full-time, whose aggregate number of paid hours a week are normally at least 120.

A site is not considered a regional or district office, however, if—

The only services provided at the site further exempt purposes (such as day care, health care or scientific or medical research); and

The site does not serve as an office for management staff, other than managers who are involved solely in managing the exempt function activities at the site.

**Special rules relating to public inspection.**

**Permissible conditions on public inspection.** A tax-exempt organization—

- May have an employee present in the room during an inspection.
- Must allow the individual conducting the inspection to take notes freely during the inspection.
- Must allow the individual to photocopy the document at no charge, if the individual provides photocopying equipment at the place of inspection.

**Organizations that do not maintain permanent offices.** A tax-exempt organization with no permanent office—

- Must make its application for tax exemption and its annual information returns available for inspection at a reasonable location of its choice.
- Must permit public inspection within a reasonable amount of time after receiving a request for inspection (normally not more than 2 weeks) and at a reasonable time of day.
- May mail, within 2 weeks of receiving the request, a copy of its application for tax exemption and annual information returns to the requester instead of allowing an inspection.
- May charge the requester for copying and actual postage costs only if the requester consents to the charge.

However, an organization that has a permanent office, but has no office hours, or very limited hours during certain times of the year, must make its documents available

during those periods when office hours are limited, or not available, as though it were an organization without a permanent office.

**Special rules relating to copies.**

**Time and place for providing copies in response to requests made in-person.** A tax-exempt organization must:

- Provide copies of required documents under section 6104(d) in response to a request made in person at its principal, regional and district offices during regular business hours.
- Provide such copies to a requester on the day the request is made, except for unusual circumstances (see below).

**Unusual circumstances.** In the case of an in-person request, where unusual circumstances exist so that fulfilling the request on the same business day causes an unreasonable burden to the tax-exempt organization, the organization must provide the copies no later than the next business day following the day that the unusual circumstances cease to exist, or the 5th business day after the date of the request, whichever occurs first.

Unusual circumstances include:

- Requests received that exceed the organization's daily capacity to make copies;
- Requests received shortly before the end of regular business hours that require an extensive amount of copying; or
- Requests received on a day when the organization's managerial staff capable of fulfilling the request is conducting special duties, such as student registration or attending an off-site meeting or convention, rather than its regular administrative duties.

**Agents for providing copies.** For rules relating to use of agents to provide copies, see Regulations sections 301.6104(d)-1(d)(1) and (2).

**Request for copies in writing.** A tax-exempt organization must honor a written request for a copy of documents (or the requested part) required under section 6104(d) if the request:

1. Is addressed to, and delivered by mail, electronic mail, facsimile, or a private delivery service, as defined in section 7502(f), to a principal, regional, or district office of the organization; and
2. Sets forth the address to which the copy of the documents should be sent.

**Time and manner of fulfilling written requests.**

| <b>IF the tax-exempt organization</b>     | <b>THEN the organization</b>   |
|---|--|
| Receives a written request for a copy,    | Must mail the copy of the requested documents (or the requested parts) within 30 days from the date it receives the request.   |
| Mails the copy of the requested document, | Is deemed to have provided the copy on the postmark date or private delivery mark (if sent by certified or registered mail, the date of registration or the date of the postmark on the sender's receipt). |

|  |   |
|--|---|
| Requires payment in advance,   | Is required to provide the copies within 30 days from the date it receives payment.   |
| Receives a request or payment by mail,   | Is deemed to have received it 7 days after the date of the postmark, absent evidence to the contrary.   |
| Receives a request transmitted by electronic mail or facsimile,  | Is deemed to have received it the day the request is transmitted successfully.  |
| Receives a written request without payment or with an insufficient payment, when payment in advance is required, | Must notify the requester of the prepayment policy and the amount due within 7 days from the date of the request's receipt.   |
| Receives consent from an individual making a request,  | May provide a copy of the requested document exclusively by electronic mail (the material is provided on the date the organization successfully transmits the electronic mail). |

**Request for a copy of parts of a document.** A tax-exempt organization must fulfill a request for a copy of the organization's entire application for tax exemption or annual information return or any specific part or schedule of its application or return. A request for a copy of less than the entire application or less than the entire return must specifically identify the requested part or schedule.

**Fees for copies.** A tax-exempt organization may charge a reasonable fee for providing copies.

Before the organization provides the documents, it may require that the individual requesting copies of the documents pay the fee. If the organization has provided an individual making a request with notice of the fee, and the individual does not pay the fee within 30 days, or if the individual pays the fee by check and the check does not clear upon deposit, the organization may disregard the request.

**Form of payment—(A) Request made in person.** If a tax-exempt organization charges a fee for copying, it must accept payment by cash and money order for requests made in person. The organization may accept other forms of payment, such as credit cards and personal checks.

**(B) Request made in writing.** If a tax-exempt organization charges a fee for copying and postage, it must accept payment by certified check, money order, and either personal check or credit card for requests made in writing. The organization may accept other forms of payment.

**Avoidance of unexpected fees.** Where a tax-exempt organization does not require prepayment and a requester does not enclose payment with a request, an organization must receive consent from a requester before providing copies for which the fee charged for copying and postage exceeds \$20.

**Documents to be provided by regional and district offices.** Except as otherwise provided, a regional or district office of a tax-exempt organization must satisfy the same rules as the principal office with respect to allowing public inspection and providing copies

of its application for tax exemption and annual information returns.

A regional or district office is not required, however, to make its annual information return available for inspection or to provide copies until 30 days after the date the return is required to be filed (including any extension of time that is granted for filing such return) or is actually filed, whichever is later.

**Documents to be provided by local and subordinate organizations.**

**Applications for tax exemption.** Except as otherwise provided, a tax-exempt organization that did not file its own application for tax exemption (because it is a local or subordinate organization covered by a group exemption letter) must, upon request, make available for public inspection, or provide copies of, the application submitted to the IRS by the central or parent organization to obtain the group exemption letter and those documents which were submitted by the central or parent organization to include the local or subordinate organization in the group exemption letter.

However, if the central or parent organization submits to the IRS a list or directory of local or subordinate organizations covered by the group exemption letter, the local or subordinate organization is required to provide only the application for the group exemption ruling and the pages of the list or directory that specifically refer to it. The local or subordinate organization must permit public inspection, or comply with a request for copies made in person, within a reasonable amount of time (normally not more than 2 weeks) after receiving a request made in person for public inspection or copies and at a reasonable time of day. See Regulations section 301.6104(d)-1(f) for further information.

**Annual information returns.** A local or subordinate organization that does not file its own annual information return (because it is affiliated with a central or parent organization that files a group return) must, upon request, make available for public inspection, or provide copies of, the group returns filed by the central or parent organization.

However, if the group return includes separate schedules with respect to each local or subordinate organization included in the group return, the local or subordinate organization receiving the request may omit any schedules relating only to other organizations included in the group return.

The local or subordinate organization must permit public inspection, or comply with a request for copies made in person, within a reasonable amount of time (normally not more than 2 weeks) after receiving a request made in person for public inspection or copies and at a reasonable time of day.

In a case where the requester seeks inspection, the local or subordinate organization may mail a copy of the applicable documents to the requester within the same time period instead of allowing an inspection. In such a case, the organization may charge the requester for copying and actual postage costs only if the requester consents to the charge.

If the local or subordinate organization receives a written request for a copy of its annual information return, it must fulfill the request by providing a copy of the group return in the time and manner specified in the paragraph above, **Request for copies in writing.**

The requester has the option of requesting from the central or parent organization, at its principal office, inspection or copies of group returns filed by the central or parent

organization. The central or parent organization must fulfill such requests in the time and manner specified in the paragraphs, **Special rules relating to public inspection** and **Special rules relating to copies** above.

**Failure to comply.** If an organization fails to comply with the requirements specified in this paragraph, the penalty provisions of sections 6652(c)(1)(C), 6652(c)(1)(D), and 6685 apply.

**Making applications and returns widely available.** A tax-exempt organization is not required to comply with a request for a copy of its application for tax exemption or an annual information return if the organization has made the requested document widely available (see below).

An organization that makes its application for tax exemption and/or annual information return widely available must nevertheless make the document available for public inspection as required under Regulations section 301.6104(d)-1(a).

A tax-exempt organization makes its application for tax exemption and/or an annual information return widely available if the organization complies with the Internet posting requirements and the notice requirements given below.

**Internet posting.** A tax-exempt organization can make its application for tax exemption and/or an annual information return widely available by posting the document on a World Wide Web page that the tax-exempt organization establishes and maintains or by having the document posted, as part of a database of similar documents of other tax-exempt organizations, on a World Wide Web page established and maintained by another entity. The document will be considered widely available only if—

(A) The World Wide Web page through which it is available clearly informs readers that the document is available and provides instructions for downloading it;

(B) The document is posted in a format that, when accessed, downloaded, viewed and printed in hard copy, exactly reproduces the image of the application for tax exemption or annual information return as it was originally filed with the IRS, except for any information permitted by statute to be withheld from public disclosure; and

(C) Any individual with access to the Internet can access, download, view and print the document without special computer hardware or software required for that format (other than software that is readily available to members of the public without payment of any fee) and without payment of a fee to the tax-exempt organization or to another entity maintaining the World Wide Web page.

**Reliability and accuracy.** In order for the document to be widely available through an Internet posting, the entity maintaining the World Wide Web page must have procedures for ensuring the reliability and accuracy of the document that it posts on the page and must take reasonable precautions to prevent alteration, destruction or accidental loss of the document when posted on its page. In the event that a posted document is altered, destroyed or lost, the entity must correct or replace the document.

**Notice requirement.** If a tax-exempt organization has made its application for tax exemption and/or an annual information return widely available, it must notify any individual requesting a copy where the documents are available (including the address on the World Wide Web, if applicable). If the request is made in person, the organization must provide such

notice to the individual immediately. If the request is made in writing, the notice must be provided within 7 days of receiving the request.

**Tax-exempt organization subject to harassment campaign.** If the Director EO Examination (or designee) determines that the organization is being harassed, a tax-exempt organization is not required to comply with any request for copies that it reasonably believes is part of a harassment campaign.

Whether a group of requests constitutes a harassment campaign depends on the relevant facts and circumstances such as:

A sudden increase in requests; an extraordinary number of requests by form letters or similarly worded correspondence; hostile requests; evidence showing bad faith or deterrence of the organization's exempt purpose; prior provision of the requested documents to the purported harassing group; and a demonstration that the organization routinely provides copies of its documents upon request.

A tax-exempt organization may disregard any request for copies of all or part of any document beyond the first two received within any 30-day-period or the first four received within any 1-year-period from the same individual or the same address, regardless of whether the Director EO Examination (or designee) has determined that the organization is subject to a harassment campaign.

A tax-exempt organization may apply for a determination that it is the subject of a harassment campaign and that compliance with requests that are part of the campaign would not be in the public interest by submitting a signed application to the Director EO Examination (or designee) for the area where the organization's principal office is located.

In addition, the organization may suspend compliance with any request it reasonably believes to be part of the harassment campaign until it receives a response to its application for a harassment campaign determination. However, if the Director EO Examination (or designee) determines that the organization did not have a reasonable basis for requesting a determination that it was subject to a harassment campaign or reasonable belief that a request was part of the campaign, the officer, director, trustee, employee, or other responsible individual of the organization remains liable for any penalties for not providing the copies in a timely fashion. See Regulations section 301.6104(d)-3.

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## N. Disclosures Regarding Certain Information and Services Furnished

A section 501(c) organization that offers to sell or solicits money for specific information or a routine service for any individual that could be obtained by such individual from a Federal government agency free or for a nominal charge must disclose that fact conspicuously when making such offer or solicitation. Any organization that intentionally disregards this requirement will be subject to a penalty for each day on which the offers or solicitations are made. The penalty imposed for a particular day is the greater of \$1,000 or 50% of the total cost of the offers and solicitations made on that day that lacked the required disclosure (section 6711).

## O. Disclosures Regarding Certain Transactions and Relationships

In their annual returns on Schedule A (Form 990 or 990-EZ), section 501(c)(3)

organizations must disclose information regarding their direct or indirect transfers to, and other direct or indirect relationships with, other section 501(c) organizations (except other section 501(c)(3) organizations) or section 527 political organizations (section 6033(b)(9)). This provision helps prevent the diversion or expenditure of a section 501(c)(3) organization's funds for purposes not intended by section 501(c)(3). All section 501(c)(3) organizations must maintain records regarding all such transfers, transactions, and relationships. See also General Instruction K regarding penalties.

## P. Intermediate Sanction Regulations—Excess Benefit Transactions

Final Regulations that interpret the benefit limitation provisions of section 4958 were issued in January of 2002. These rules are important to the exempt organization community as a whole, and for ensuring compliance in this area. The new rules provide a roadmap by which an organization may steer clear of situations that may give rise to inurement.

Under section 4958, any **disqualified person** who benefits from an **excess benefit transaction** with an **applicable tax-exempt organization** is liable for a 25% tax on the excess benefit. The disqualified person is also liable for a 200% tax on the excess benefit if the excess benefit is not corrected by a certain date. Also, organization managers who participate in an excess benefit transaction knowingly, willfully, and without reasonable cause are liable for a 10% tax on the excess benefit, not to exceed \$10,000 for all participating managers on each transaction.

### Applicable Tax-Exempt Organization

These rules only apply to certain “applicable” section 501(c)(3) and 501(c)(4) organizations. An applicable tax-exempt organization is a section 501(c)(3) or a section 501(c)(4) organization that is tax-exempt under section 501(a), or was such an organization at any time during a 5-year period ending on the day of the excess benefit transaction.

An applicable tax-exempt organization does not include:

- A private foundation as defined in section 509(a).
- A governmental entity that is exempt from (or not subject to) taxation without regard to section 501(a) or relieved from filing an annual return under Regulations section 1.6033-2(g)(6).
- Certain foreign organizations.

An organization is not treated as a section 501(c)(3) or 501(c)(4) organization for any period covered by a final determination that the organization was not tax-exempt under section 501(a), but only if the determination was not based on private inurement or one or more excess benefit transactions.

### Disqualified Person

The vast majority of section 501(c)(3) or 501(c)(4) organization employees and contractors will not be affected by these rules. Only the few influential persons within these organizations are covered by these rules when they receive benefits, such as compensation, fringe benefits, or contract payments. The IRS calls this class of covered individuals “disqualified persons.” A disqualified person, regarding any transaction, is any person who was in a position to exercise substantial influence over the affairs of the applicable tax-exempt organization at any time during a 5-year period ending on the date of the

transaction. Persons who hold certain powers, responsibilities, or interests are among those who are in a position to exercise substantial influence over the affairs of the organization. This would include, for example, voting members of the governing body, and persons holding the power of:

- Presidents, chief executive officers, or chief operating officers.
- Treasurers and chief financial officers.

A disqualified person also includes certain family members of a disqualified person, and 35% controlled entities of a disqualified person.

**Who is not a disqualified person?** The rules also clarify which persons are not considered to be in a position to exercise substantial influence over the affairs of an organization. They include:

- An employee who receives benefits that total less than the “highly compensated” amount (\$90,000 in 2002) and who does not hold the executive or voting powers just mentioned; is not a family member of a disqualified person; and is not a substantial contributor;
- Tax-exempt organizations described in section 501(c)(3); and
- Section 501(c)(4) organizations with respect to transactions engaged in with other section 501(c)(4) organizations.

**Who else may be considered a disqualified person?** Other persons not described above can also be considered disqualified persons, depending on all the relevant facts and circumstances.

### Facts and circumstances tending to show substantial influence:

- The person founded the organization.
- The person is a substantial contributor to the organization under the section 507(d)(2)(A) definition, only taking into account contributions to the organization for the past 5 years.
- The person's compensation is primarily based on revenues derived from activities of the organization that the person controls.
- The person has or shares authority to control or determine a substantial portion of the organization's capital expenditures, operating budget, or compensation for employees.
- The person manages a discrete segment or activity of the organization that represents a substantial portion of the activities, assets, income, or expenses of the organization, as compared to the organization as a whole.
- The person owns a controlling interest (measured by either vote or value) in a corporation, partnership, or trust that is a disqualified person.
- The person is a nonstock organization controlled directly or indirectly by one or more disqualified persons.

### Facts and circumstances tending to show no substantial influence:

- The person is an independent contractor whose sole relationship to the organization is providing professional advice (without having decision-making authority) with respect to transactions from which the independent contractor will not economically benefit.
- The person has taken a vow of poverty.
- Any preferential treatment the person receives based on the size of the person's donation is also offered to others making comparable widely solicited donations.
- The direct supervisor of the person is not a disqualified person.
- The person does not participate in any management decisions affecting the organization as a whole or a discrete segment of the organization that represents a substantial portion of the activities, assets, income, or expenses of the organization, as compared to the organization as a whole.

**What about persons who staff affiliated organizations?** In the case of multiple affiliated organizations, the determination of whether a person has substantial influence is made separately for each applicable tax-exempt organization. A person may be a disqualified person with respect to transactions with more than one organization.

### Excess Benefit Transaction

An excess benefit transaction is a transaction in which an economic benefit is provided by an applicable tax-exempt organization, directly or indirectly, to or for the use of any disqualified person, and the value of the economic benefit provided by the organization exceeds the value of the consideration (including the performance of services) received for providing such benefit.

To determine whether an excess benefit transaction has occurred, all consideration and benefits exchanged between a disqualified person and the applicable tax-exempt organization, and all entities it controls, are taken into account. For purposes of determining the value of economic benefits, the value of property, including the right to use property, is the fair market value. Fair market value is the price at which property, or the right to use property, would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy, sell or transfer property or the right to use property, and both having reasonable knowledge of relevant facts.

An excess benefit can occur in an exchange of compensation and other compensatory benefits in return for the services of a disqualified person, or in an exchange of property between a disqualified person and the exempt organization.

**When does an excess benefit transaction usually occur?** An excess benefit transaction occurs on the date the disqualified person receives the economic benefit from the organization for Federal income tax purposes. However, when a single contractual arrangement provides for a series of compensation payments or other payments to a disqualified person during the disqualified person's tax year, any excess benefit transaction with respect to these payments occurs on the last day of the taxpayer's tax year.

In the case of the transfer of property subject to a substantial risk of forfeiture, or in the case of rights to future compensation or property, the transaction occurs on the date the property, or the rights to future compensation or property, is not subject to a substantial risk of forfeiture. Where the disqualified person elects to include an amount in gross income in the tax year of transfer under section 83(b), the excess benefit transaction occurs on the date the disqualified person receives the economic benefit for Federal income tax purposes.

**Section 4958 applies only to post-September 1995 transactions.** Section 4958 applies to excess benefit transactions occurring on or after September 14, 1995. Section 4958 does not apply to any transaction occurring pursuant to a written contract that was binding on September 13, 1995, and at all times thereafter before the transaction occurs.

### What is reasonable compensation?

Reasonable compensation is the valuation standard that is used to determine if there is an excess benefit in the exchange of a disqualified person's services for compensation.

Reasonable compensation is the value that would ordinarily be paid for like services by like enterprises under like circumstances. This is the section 162 standard that will apply in determining the reasonableness of

compensation. The fact that a bonus or revenue-sharing arrangement is subject to a cap is a relevant factor in determining the reasonableness of compensation.

For determining the reasonableness of compensation, all items of compensation provided by an applicable tax-exempt organization in exchange for the performance of services are taken into account in determining the value of compensation (except for certain economic benefits that are disregarded, as discussed in **What benefits are disregarded?** below). Items of compensation include:

- All forms of cash and noncash compensation, including salary, fees, bonuses, severance payments, and deferred and noncash compensation;
- The payment of liability insurance premiums for, or the payment or reimbursement by the organization of taxes or certain expenses under section 4958, unless excludable from income as a *de minimis* fringe benefit under section 132(a)(4). (A similar rule applies in the private foundation area.) Inclusion in compensation for purposes of determining reasonableness under section 4958 does not control inclusion in income for income tax purposes.
- All other compensatory benefits, whether or not included in gross income for income tax purposes.
- Taxable and nontaxable fringe benefits, except fringe benefits described in section 132.
- Foregone interest on loans.

**Written intent required to treat benefits as compensation.** An economic benefit is not treated as consideration for the performance of services unless the organization providing the benefit clearly indicates its intent to treat the benefit as compensation when the benefit is paid.

An applicable tax-exempt organization (or entity that it controls) is treated as clearly indicating its intent to provide an economic benefit as compensation for services only if the organization provides written substantiation that is contemporaneous with the transfer of the economic benefits under consideration. Ways to provide contemporaneous written substantiation of its intent to provide an economic benefit as compensation include:

- The organization produces a signed written employment contract;
- The organization reports the benefit as compensation on an original Form W-2, Form 1099 or Form 990, or on an amended form filed prior to the start of an IRS examination; or
- The disqualified person reports the benefit as income on the person's original Form 1040 or on an amended form filed prior to the start of an IRS examination.

**Exception.** To the extent the economic benefit is excluded from the disqualified person's gross income for income tax purposes, the applicable tax-exempt organization is not required to indicate its intent to provide an economic benefit as compensation for services. (For example: employer provided health benefits, and contributions to qualified plans under section 401(a).)

**What benefits are disregarded?** The following economic benefits are disregarded for purposes of section 4958:

- **Nontaxable fringe benefits:** An economic benefit that is excluded from income under section 132.
- **Benefits to volunteer:** An economic benefit provided to a volunteer for the organization if the benefit is provided to the general public in exchange for a membership fee or contribution of \$75 or less per year.

- **Benefits to members or donors:** An economic benefit provided to a member of an organization due to the payment of a membership fee, or to a donor as a result of a deductible contribution, if a significant number of nondisqualified persons make similar payments or contributions and are offered a similar economic benefit.

- **Benefits to a charitable beneficiary:** An economic benefit provided to a person solely as a member of a charitable class that the applicable tax-exempt organization intends to benefit as part of the accomplishment of its exempt purpose.

- **Benefits to a governmental unit:** A transfer of an economic benefit to or for the use of a governmental unit, as defined in section 170(c)(1), if exclusively for public purposes.

**Is there an exception for initial contracts?** Section 4958 does not apply to any "fixed payment" made to a person pursuant to an initial contract. This is a very important exception, since it would potentially apply, for example, to all initial contracts with new, previously unrelated officers and contractors.

An "initial contract" is a binding written contract between an applicable tax-exempt organization and a person who was not a disqualified person immediately prior to entering into the contract.

A "fixed payment" is an amount of cash or other property specified in the contract, or determined by a fixed formula that is specified in the contract, which is to be paid or transferred in exchange for the provision of specified services or property.

A "fixed formula" may, in general, incorporate an amount that depends upon future specified events or contingencies, as long as no one has discretion when calculating the amount of a payment or deciding whether to make a payment (such as a bonus).

**Treatment as new contract.** A binding written contract providing that it may be terminated or cancelled by the applicable tax-exempt organization without the other party's consent (except as a result of substantial non-performance) and without substantial penalty, is treated as a new contract, as of the earliest date that any termination or cancellation would be effective. Also, a contract in which there is a "material change," which includes an extension or renewal of the contract (except for an extension or renewal resulting from the exercise of an option by the disqualified person), or a more than incidental change to the amount payable under the contract, is treated as a new contract as of the effective date of the material change. Treatment as a new contract may cause the contract to fall outside the initial contract exception, and it thus would be tested under the fair market value standards of section 4958.

### Rebuttable Presumption of Reasonableness

Payments under a compensation arrangement are presumed to be reasonable and the transfer of property (or right to use property) is presumed to be at fair market value, if the following three conditions are met.

1. The transaction is approved by an authorized body of the organization (or an entity it controls) which is composed of individuals who do not have a conflict of interest concerning the transaction.
2. Prior to making its determination, the authorized body obtained and relied upon appropriate data as to comparability. There is a special safe harbor for small organizations. If the organization has gross receipts of less than \$1 million, appropriate comparability data

includes data on compensation paid by three comparable organizations in the same or similar communities for similar services.

3. The authorized body adequately documents the basis for its determination concurrently with making that determination. The documentation should include:

- a. The terms of the approved transaction and the date approved;

- b. The members of the authorized body who were present during debate on the transaction that was approved and those who voted on it;

- c. The comparability data obtained and relied upon by the authorized body and how the data was obtained;

- d. Any actions by a member of the authorized body having a conflict of interest; and

- e. Documentation of the basis for the determination before the later of the next meeting of the authorized body or 60 days after the final actions of the authorized body are taken, and approval of records as reasonable, accurate and complete within a reasonable time thereafter.

**Special rebuttable presumption rule for nonfixed payments.** As a general rule, in the case of a nonfixed payment, no rebuttable presumption arises until the exact amount of the payment is determined, or a fixed formula for calculating the payment is specified, and the three requirements creating the presumption have been satisfied. However, if the authorized body approves an employment contract with a disqualified person that includes a nonfixed payment (e.g., discretionary bonus) with a specified cap on the amount, the authorized body may establish a rebuttable presumption as to the nonfixed payment when the employment contract is entered into by, in effect, assuming that the maximum amount payable under the contract will be paid, and satisfying the requirements giving rise to the rebuttable presumption for that maximum amount.

**An IRS challenge to the presumption of reasonableness.** The Internal Revenue Service may refute the presumption of reasonableness only if it develops sufficient contrary evidence to rebut the probative value of the comparability data relied upon by the authorized body. This provision gives taxpayers added protection if they faithfully find and use *contemporaneous* persuasive comparability data when they provide the benefits.

**Organizations that do not establish a presumption of reasonableness.** An organization may still comply with section 4958 even if it did not establish a presumption of reasonableness. In some cases, an organization may find it impossible or impracticable to fully implement each step of the rebuttable presumption process described above. In such cases, the organization should try to implement as many steps as possible, in whole or in part, in order to substantiate the reasonableness of benefits as timely and as well as possible. If an organization does not satisfy the requirements of the rebuttable presumption of reasonableness, a facts and circumstances approach will be followed, using established rules for determining reasonableness of compensation and benefit deductions in a manner similar to the established procedures for section 162 business expenses.

### Section 4958 Taxes

**Tax on disqualified persons.** An excise tax equal to 25% of the excess benefit is imposed on each excess benefit transaction between an

applicable tax-exempt organization and a disqualified person. The disqualified person who benefited from the transaction is liable for the tax. If the 25% tax is imposed and the excess benefit transaction is not corrected within the taxable period, an additional excise tax equal to 200% of the excess benefit is imposed.

If a disqualified person makes a payment of less than the full correction amount, the 200% tax is imposed only on the unpaid portion of the correction amount. If more than one disqualified person received an excess benefit from an excess benefit transaction, all such disqualified persons are jointly and severally liable for the taxes.

To avoid the imposition of the 200% tax, a disqualified person must correct the excess benefit transaction during the taxable period. The taxable period begins on the date the transaction occurs and ends on the earlier of the date the statutory notice of deficiency is issued or the section 4958 taxes are assessed. This 200% tax may be abated if the excess benefit transaction subsequently is corrected during a 90-day correction period.

**Tax on organization managers.** An excise tax equal to 10% of the excess benefit may be imposed on the participation of an organization manager in an excess benefit transaction between an applicable tax-exempt organization and a disqualified person. This tax, which may not exceed \$10,000 with respect to any single transaction, is only imposed if the 25% tax is imposed on the disqualified person, the organization manager knowingly participated in the transaction, and the manager's participation was willful and not due to reasonable cause. There is also joint and several liability for this tax. A person may be liable for both the tax paid by the disqualified person and this organization manager tax in appropriate circumstances.

An organization manager is any officer, director, or trustee of an applicable tax-exempt organization, or any individual having powers or responsibilities similar to officers, directors, or trustees of the organization, regardless of title. An organization manager is not considered to have participated in an excess benefit transaction where the manager has opposed the transaction in a manner consistent with the fulfillment of the manager's responsibilities to the organization. For example, a director who votes against giving an excess benefit would ordinarily not be subject to this tax.

A person participates in a transaction knowingly if the person has actual knowledge of sufficient facts so that, based solely upon such facts, the transaction would be an excess benefit transaction. Knowing does not mean having reason to know. The organization manager ordinarily will not be considered knowing if, after full disclosure of the factual situation to an appropriate professional, the organization manager relied on the professional's reasoned written opinion on matters within the professional's expertise or if the manager relied on the fact that the requirements for the rebuttable presumption of reasonableness have been satisfied. Participation by an organization manager is willful if it is voluntary, conscious and intentional. An organization manager's participation is due to reasonable cause if the manager has exercised responsibility on behalf of the organization with ordinary business care and prudence.

### Correcting an Excess Benefit Transaction

A disqualified person corrects an excess benefit transaction by undoing the excess

benefit to the extent possible, and by taking any additional measures necessary to place the organization in a financial position not worse than that in which it would be if the disqualified person were dealing under the highest fiduciary standards. The organization is not required to rescind the underlying agreement; however, the parties may need to modify an ongoing contract with respect to future payments.

A disqualified person corrects an excess benefit by making a payment in cash or cash equivalents equal to the correction amount to the applicable tax-exempt organization. The correction amount equals the excess benefit plus the interest on the excess benefit; the interest rate may be no lower than the applicable Federal rate. There is an anti-abuse rule to prevent the disqualified person from effectively transferring property other than cash or cash equivalents.

**Property.** With the agreement of the applicable tax-exempt organization, a disqualified person may make a payment by returning the specific property previously transferred in the excess benefit transaction. The return of the property is considered a payment of cash (or cash equivalent) equal to the lesser of:

- The fair market value of the property on the date the property is returned to the organization, or
- The fair market value of the property on the date the excess benefit transaction occurred.

**Insufficient payment.** If the payment resulting from the return of the property is less than the correction amount, the disqualified person must make an additional cash payment to the organization equal to the difference.

**Excess payment.** If the payment resulting from the return of the property exceeds the correction amount described above, the organization may make a cash payment to the disqualified person equal to the difference.

### Churches and Section 4958

The regulations make it clear that the IRS will apply the procedures of section 7611 when initiating and conducting any inquiry or examination into whether an excess benefit transaction has occurred between a church and a disqualified person.

### Revenue Sharing Transactions

Proposed intermediate sanction regulations were issued in 1998. The proposed regulations had special provisions covering "any transaction in which the amount of any economic benefit provided to or for the use of a disqualified person is determined in whole or in part by the revenues of one or more activities of the organization. . . ." —so-called "revenue-sharing transactions." Rather than setting forth additional rules on revenue-sharing transactions, the final regulations reserve this section. Consequently, until the Service issues new regulations for this reserved section on revenue-sharing transactions, these transactions will be evaluated under the general rules (i.e., the fair market value standards) that apply to all contractual arrangements between applicable tax-exempt organizations and their disqualified persons.

### Revocation of Exemption and Section 4958

Section 4958 does **not** affect the substantive standards for tax exemption under section 501(c)(3) or section 501(c)(4), including the requirements that the organization be organized and operated exclusively for exempt purposes, and that no part of its net earnings inure to the benefit of any private shareholder

or individual. The legislative history indicates that in most instances, the imposition of this intermediate sanction will be in lieu of revocation. IRS has indicated that the following four factors will be considered in determining whether to revoke an applicable tax-exempt organization's exemption status where an excess benefit transaction has occurred:

- Whether the organization has been involved in repeated excess benefit transactions;
- The size and scope of the excess benefit transaction;
- Whether, after concluding that it has been party to an excess benefit transaction, the organization has implemented safeguards to prevent future recurrences; and
- Whether there was compliance with other applicable laws.

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### Q. Erroneous Backup Withholding

Recipients of dividend or interest payments generally must certify their correct taxpayer identification number to the bank or other payer on Form W-9. If the payer does not get this information, it must withhold part of the payments as "backup withholding." If the organization was subject to erroneous backup withholding because the payer did not realize it was an exempt organization and not subject to this withholding, it can claim credit on Form 990-T for the amount withheld. See the Instructions for Form 990-T. Claims for refund must be filed within 3 years after the date the original return was due; 3 years after the date the organization filed it; or 2 years after the date the tax was paid, whichever is later.

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### R. Group Return

If a parent organization wants to file a group return for two or more of its subsidiaries, it must use Form 990. The parent organization cannot use a Form 990-EZ for the group return.

A central, parent, or "like" organization can file a group return on Form 990 for two or more local organizations that are:

1. Affiliated with the central organization at the time its annual accounting period ends,
2. Subject to the central organization's general supervision or control,
3. Exempt from tax under a group exemption letter that is still in effect, and
4. Have the same accounting period as the central organization.

If the parent organization is required to file a return for itself, it must file a separate return and may not be included in the group return. See General Instruction B for a list of organizations not required to file.

Every year, each local organization must authorize the central organization in writing to include it in the group return and must declare, under penalty of perjury, that the authorization and the information it submits to be included in the group return are true and complete.

If the central organization prepares a group return for its affiliated organizations, check the "Yes" box in item H(a), in the heading of Form 990, and indicate the number of organizations for which the group return is filed in item H(b).

For item H(c), check "Yes," to indicate that the group return includes all affiliated organizations covered by the group ruling. If you answer "No" to H(c), attach a list showing the name, address, and employer identification number (EIN) of each affiliated organization included in the group return. If either box in H(a) or H(d) is checked "Yes," enter the four-digit group exemption number (GEN). Do not confuse the four-digit GEN number to be reported for item I with the nine-digit EIN

number reported in item D of the form's heading.

The central organization should send the annual information required to maintain a group exemption letter to the:

Internal Revenue Service  
Ogden Service Center  
Ogden, UT 84201-0027.

An affiliated organization covered by a group ruling may file a separate return instead of being included in the group return. In such case, check the "Yes" box in item H(d), in the heading of Form 990, and enter the GEN number in item I.

Parts IV-A and IV-B of Form 990 do not have to be completed on group returns.

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## S. Organizations in Foreign Countries and U.S. Possessions

Refer to General Instruction B for the filing exemption for foreign organizations with \$25,000 or less in gross receipts from U.S. sources.

Report amounts in U.S. dollars and state what conversion rate you use. Combine amounts from within and outside the United States and report the total for each item. All information must be written in English.

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## T. Public Interest Law Firms

A public interest law firm exempt under section 501(c)(3) or 501(c)(4) must attach a statement that lists the cases in litigation, or that have been litigated during the year. For each case, describe the matter in dispute and explain how the litigation will benefit the public generally. Also attach a report of all fees sought and recovered in each case. See Rev. Proc. 92-59, 1992-2 C.B. 411.

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## U. Political Organizations

A political organization subject to section 527 is a party, committee, association, fund, or other organization (whether or not incorporated) organized and operated primarily for the purpose of directly or indirectly accepting contributions or making expenditures, or both, for an exempt function.

The exempt function of a political organization is influencing or attempting to influence the selection, nomination, election or appointment of an individual to a federal, state, or local public office or office in a political organization. A political organization must be organized for the primary purpose of carrying on exempt function activities.

A political organization does not need to be formally chartered or established as a corporation, trust, or association. A separate bank account in which political campaign funds are deposited and disbursed only for political campaign expenses can qualify as a political organization.

Public Law 107-276, enacted on November 2, 2002, revised certain reporting and disclosure rules for political organizations. See General Instructions A and B for more information.

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## V. Information Regarding Transfers Associated With Personal Benefit Contracts

Filers of Form 990 that engaged in activities involving personal benefit contracts must declare in **Part X**, Information Regarding

Transfers Associated With Personal Benefit Contracts, whether or not they:

1. Received any funds, directly or indirectly, to pay premiums on a "personal benefit contract."
2. Paid any premiums, directly or indirectly, on a personal benefit contract.

**Note:** Filers of Form 990-EZ must make this declaration in a statement attached to their form.

If premiums were paid on a personal benefit contract, the organization must report these payments on Form 8870 and pay an excise tax, equal to premiums paid, with Form 4720.

Section 170(f)(10)(F)(iii) requires a charitable organization to report annually its premium payments on a personal benefit contract with respect to a transferor and to identify the beneficiaries of those contracts. A transferor of funds to a charitable organization receives no charitable contribution deduction if the organization, directly or indirectly pays, or has previously paid, any premium on a personal benefit contract with respect to the transferor, or there is an understanding or expectation that any person will directly or indirectly pay any premium on a personal benefit contract with respect to the transferor (section 170(f)(10)(A)).

A "personal benefit contract," generally, is any life insurance, annuity, or endowment contract that benefits, directly or indirectly, the transferor, a member of the transferor's family, or any other person designated by the transferor (other than an organization described in section 170(c)). A charitable organization is an organization described in section 170(c).

Section 170(f)(10)(F)(i) imposes on a charitable organization an excise tax equal to the premiums paid by the organization on any personal benefit contract, if the payment of premiums is in connection with a transfer for which a deduction is not allowed under section 170(f)(10)(A). For purposes of this excise tax, section 170(f)(10)(F)(ii) provides that premium payments made by any other person, pursuant to an understanding or expectation described in section 170(f)(10)(A), are treated as made by the charitable organization.

For more information on the reporting requirements of section 170(f)(10), see Notice 2000-24, 2000-17 I.R.B. 952 (2000-1 C.B. 952) and Announcement 2000-82, 2000-42 I.R.B. 385 (2000-2 C.B. 385).

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## W. Requirements for a Properly Completed Form 990 or Form 990-EZ

**Public inspection.** In general, all information the organization reports on or with its Form 990, or Form 990-EZ, including attachments, will be available for public inspection. Note, however, the public inspection rules for the Schedule B (Form 990, 990-EZ, or 990-PF), a required attachment for organizations that file Form 990 or Form 990-EZ. Make sure the forms and attachments are clear enough to photocopy legibly.

**Signature.** To make the return complete, an officer of the organization authorized to sign it must sign in the space provided. For a corporation, or association, this officer may be the president, vice president, treasurer, assistant treasurer, chief accounting officer, or other corporate, or association officer, such as a tax officer. A receiver, trustee, or assignee must sign any return he or she files for a

corporation or association. For a trust, the authorized trustee(s) must sign.



Generally, anyone who is paid to prepare the return must sign it in the Paid Preparer's Use Only area.

The paid preparer must:

- Sign the return, by hand, in the space provided for the preparer's signature (signature stamps and labels are not acceptable).
- Enter the preparer's social security number (SSN), preparer tax identification number (PTIN), or employer identification number (EIN), **only** if the Form 990, or Form 990-EZ, is for a section 4947(a)(1) nonexempt charitable trust that is not filing Form 1041.
- Complete the required preparer information.
- Give a copy of the return to the organization.

Leave the paid preparer's space blank if the return was prepared by a regular employee of the filing organization.

**Recordkeeping.** The organization's records should be kept for as long as they may be needed for the administration of any provision of the Internal Revenue Code. Usually, records that support an item of income, deduction, or credit must be kept for 3 years from the date the return is due or filed, whichever is later. Keep records that verify the organization's basis in property for as long as they are needed to figure the basis of the original or replacement property.

The organization should also keep copies of any returns it has filed. They help in preparing future returns and in making computations when filing an amended return.

**Rounding off to whole dollars.** You may show money items as whole-dollar amounts. Drop any amount less than 50 cents and increase any amount from 50 through 99 cents to the next higher dollar.

**Completing all lines.** Unless the organization is permitted to use certain DOL forms or Form 5500 as partial substitutes for Form 990, or Form 990-EZ (see General Instruction F), do not leave any applicable lines blank or attach any other forms or schedules instead of entering the required information on the appropriate line on Form 990 or Form 990-EZ.

**Assembling Form 990 or Form 990-EZ.** Before filing the Form 990, or Form 990-EZ, assemble the package of forms and attachments in the following order:

- Form 990 or Form 990-EZ.
- Schedule A (Form 990 or 990-EZ). The requirement to attach Schedule A (Form 990 or 990-EZ) applies to **all** section 501(c)(3) organizations and **all** section 4947(a)(1) nonexempt charitable trusts that file Form 990 or Form 990-EZ.
- Schedule B (Form 990, 990-EZ, or 990-PF).
- Attachments to Form 990 or Form 990-EZ.
- Attachments to Schedule A (Form 990 or 990-EZ).
- Attachments to Schedule B (Form 990, 990-EZ, or 990-PF).

**Attachments.** Use the schedules on the official form unless you need more space. If you use attachments, they must:

1. Show the form number and tax year;
2. Show the organization's name and EIN;
3. Identify clearly the Part or line(s) to which the attachments relate;
4. Include the information required by the form and use the same format as the form;
5. Follow the same Part and line sequence as the form; and
6. Be on the same size paper as the form.



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**Checklist for a properly completed return.**

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- \_\_\_\_\_ Complete Schedule A (Form 990 or 990-EZ) if your organization is a section 501(c)(3), 501(e), (f), (k), (n) organization or a section 4947(a)(1) nonexempt charitable trust.
- 
- \_\_\_\_\_ Complete Schedule A (Form 990 or 990-EZ), Part IV-A, Support Schedule, if you are required to check a box on line 10, 11, or 12 of Part IV-A of the Support Schedule.
- 
- \_\_\_\_\_ File Form 990 instead of Form 990-EZ if your organization's gross receipts are more than \$100,000 and total assets at the end of the year are more than \$250,000.
- 
- \_\_\_\_\_ Indicate the correct tax year in the heading of your form.
- 
- \_\_\_\_\_ Have an officer of the organization sign the return.
- 
- \_\_\_\_\_ Complete all Balance Sheet columns. (Part IV (and IV-A and IV-B) of Form 990; Part II of Form 990-EZ). Indicate "N/A" if a line, column, or Part does not apply. Indicate too, on the applicable line, if a schedule is attached. Do not substitute another balance sheet instead of completing the Part II Balance Sheet of Form 990-EZ.
- 
- \_\_\_\_\_ Attach all required pages and schedules to the return. Include a list of subordinates if filing a group return.
- 
- \_\_\_\_\_ Double-check the accuracy of your EIN, tax period, and group exemption number (GEN), if applicable.
- 
- \_\_\_\_\_ Indicate the correct 501(c) subsection under which you are tax-exempt. If there has been a change, attach a copy of the latest determination letter. If the letter is unavailable, attach a description of your organization's primary exempt purpose.
- 
- \_\_\_\_\_ Be aware that the Form 990, Form 990-EZ, the Schedule A (Form 990 or 990-EZ), and the attachments to be filed with these forms, are publicly disclosable. Note, however, the public inspection rules in the instructions for Schedule B (Form 990, 990-EZ, or 990-PF).
- 
- \_\_\_\_\_ Section 501(c)(3) organizations required to complete lines 26, 27, or 28 of Schedule A (Form 990 or 990-EZ) must prepare lists for their own records to substantiate amounts on those lines. These lists **are not** to be filed with the return.
- 
- \_\_\_\_\_ **Do not** check the Final Return box in the heading of the Form 990 or 990-EZ unless your organization has ceased operations.
-

## Specific Instructions for Form 990

**Note:** See also the General Instructions that apply to both the Form 990 and Form 990-EZ.

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### Completing the Heading of Form 990

The instructions that follow are keyed to items in the heading for Form 990.

#### Item A—Accounting period

Use the 2002 Form 990 to report on a calendar year accounting period beginning January 1, 2002, and ending December 31, 2002.

Use the 2002 Form 990 also to report on an accounting period other than a calendar year (either a fiscal year that began in 2002 or a short period (less than 12 months) that began in 2002). You must show the month and day in 2002 that your fiscal year began, or the short period began. You must also show the day, month, and year your fiscal year, or short period, ended. See General Instruction G.

#### Item B—Checkboxes

**Address change, name change, and initial return.** Check the appropriate box if the organization changed its address since it filed its previous return, or if this is the first time the organization is filing either a Form 990 or a Form 990-EZ.

If the tax-exempt organization has changed its name, attach the following documents:

| <i>IF the tax-exempt organization is . . .</i> | <i>THEN attach these documents. . .</i>  |
|--|--|
| A corporation                                  | An amendment to the articles of incorporation with proof of filing with the state of incorporation.  |
| A trust  | An amendment to the trust agreement signed by the trustee.   |
| An association                                 | An amendment to the articles of association, constitution, bylaws, or other organizing document, along with signatures of at least two officers/members. |

#### Final return and amended return.

Organizations should file final returns when they cease to be section 501(a) organizations or section 527 organizations; for example, when they cease operations and dissolve. See the instructions for line 79 that discuss liquidations, dissolutions, terminations, or substantial contractions.

If the return is an amended return, check the box. There are amended return requirements when filing with a state. See General Instructions E and J.

**Application pending.** If the organization's application for exemption is pending, check this box and complete the return.

#### Item C—Name and address

If we mailed the organization a Form 990 Package with a preaddressed mailing label, please attach the label in the name and address space on the return. Using the label helps us avoid errors in processing the return. If any information on the label is wrong, draw a line through that part and correct it.

If the organization operates under a name different from its legal name, give the legal name of the organization but identify its alternate name, after the legal name, by writing "aka" (also known as) and the alternate name of the organization. However, if the organization has changed its name, follow the instructions for **Name change in Item B—Checkboxes**.

Include the suite, room, or other unit number after the street address. If the Post Office does not deliver mail to the street address and the organization has a P.O. box, show the box number instead of the street address.

For foreign addresses, enter information in the following order: City, province or state, and the name of the country. Follow the foreign country's practice in placing the postal code in the address. Please **do not** abbreviate the country name.

If a change in address occurs after the return is filed, use Form 8822 to notify the IRS of the new address.

#### Item D—Employer identification number

The organization should have only one Federal employer identification number (EIN). If it has more than one and has not been advised which to use, notify the Internal Revenue Service Center, Ogden, UT 84201-0027. State what numbers the organization has, the name and address to which each number was assigned, and the address of its principal office. The IRS will advise the organization which number to use.

- A section 501(c)(9) voluntary employees' beneficiary association must use its own EIN and not the EIN of its sponsor.
- A disregarded entity, as described in Regulations sections 301.7701-1 through 301.7701-3, however, may use the EIN of the organization in Part IX if the disregarded entity does not have its own EIN. See General Instruction A and the instructions for Part IX.

#### Item E—Telephone number

Enter a telephone number of the organization that members of the public and government regulators may use during normal business hours to obtain information about the organization's finances and activities. If the organization does not have a telephone number, enter the telephone number of an organization official who can provide such information.

#### Item F—Accounting method

An organization must indicate the method of accounting used in preparing this return. See General Instruction G.

#### Item G—Web site

Show the organization's Web site address if a Web site is available. Otherwise, write "N/A" (not applicable). Consider adding your e-mail address to your Web site.

#### Item H—Group return, etc.

See General Instruction R. Attach the required list, if applicable, or you will be contacted later for the missing information.

#### Item I—Group exemption number

Enter the four-digit group exemption number (GEN) if you checked a "Yes" box in item H(a) and H(d). Contact the central/parent organization if you are unsure of the GEN assigned.

#### Item J—Type of organization

If the organization is exempt under section 501(c), check the applicable box and insert, within the parentheses, the number that identifies the type of section 501(c) organization the filer is. See the chart in General Instruction C. The term "section 501(c)(3)" includes organizations exempt under sections 501(e), (f), (k), and (n). Check the applicable box if the organization is a section 527 political organization. See General Instruction U.

If the organization is a section 4947(a)(1) nonexempt charitable trust, check the applicable box. Note also the discussion regarding Schedule A (Form 990 or 990-EZ) and Form 1041 in General Instruction D and the instructions to line 92 of Form 990.

#### Item K—Gross receipts of \$25,000 or less

Check this box if the organization's gross receipts are normally not more than \$25,000. However, see General Instruction A, if you received a Form 990 Package, and note the discussion on gross receipts in General Instruction B.

#### Item L—Calculating gross receipts

The organization's gross receipts are the total amount it received from all sources during its annual accounting period, without subtracting any costs or expenses. See the gross receipts discussion in General Instruction B.

## Item M—Schedule B (Form 990, 990-EZ, or 990-PF)

Whether or not the organization enters any amount on line 1d of Form 990, the organization must either check the box in item M or attach Schedule B (Form 990, 990-EZ, or 990-PF). Failure to either check the box in item M or file Schedule B (Form 990, 990-EZ, or 990-PF) will result in a determination that the return is incomplete. See the instructions for Schedule B (Form 990, 990-EZ, or 990-PF), Schedule of Contributors, for more information.

**Note:** “Contributor” includes individuals, fiduciaries, partnerships, corporations, associations, trusts, and exempt organizations.

### Guidelines for meeting the schedule of contributor requirements of Schedule B (Form 990, 990-EZ, or 990-PF)

**Section 501(c)(3) org., meeting the 1/3 support test of 170(b)(1)(A)**

**If . . .**  
A section 501(c)(3) organization that met the 1/3 support test of the regulations under 509(a)(1)/170(b)(1)(A) did not receive a contribution of the greater of \$5,000 or 2% of the amount on line 1d of Form 990, from any one contributor.\*

**Then . . .**  
The organization should check the box in item M to certify that it is not required to attach Schedule B (Form 990, 990-EZ, or 990-PF).

**Otherwise . . .**  
Complete and attach Schedule B (Form 990, 990-EZ, or 990-PF).

**Section 501(c)(7), (8), or (10) organization**

**If . . .**  
A section 501(c)(7), (8), or (10) organization did not receive any contribution or bequest for use *exclusively* for religious, charitable, scientific, literary, or educational purposes, or the prevention of cruelty to children or animals (and did not receive any noncharitable contributions of \$5,000 or more as described below under **general rule**),

**Then . . .**  
The organization should check the box in item M to certify that it is not required to attach Schedule B (Form 990, 990-EZ, or 990-PF).

**Otherwise . . .**  
Complete and attach Schedule B (Form 990, 990-EZ, or 990-PF).

**All other Form 990 or Form 990-EZ organizations (general rule)**

**If . . .**  
The organization did not show as part of line 1d of the Form 990, a contribution of \$5,000 or more from any one contributor.\*

**Then . . .**

The organization should check the box in item M to certify that it is not required to attach Schedule B (Form 990, 990-EZ, or 990-PF).

**Otherwise . . .**

Complete and attach Schedule B (Form 990, 990-EZ, or 990-PF).

\* Total a contributor's gifts of \$1,000 or more to determine if a contributor gave \$5,000 or more. Do not include smaller gifts.

## Part I—Revenue, Expenses, and Changes in Net Assets or Fund Balances

All organizations filing Form 990 with the IRS or any state must complete Part I. Some states that accept Form 990 in place of their own forms require additional information.

### Line 1—In General

#### Contributions, gifts, grants, and similar amounts received

- On lines 1a through 1c, report amounts received as voluntary contributions; that is, payments, or the part of any payment, for which the payer (donor) does not receive full retail value (fair market value) from the recipient (donee) organization.
- Report gross amounts of contributions collected in the charity's name by fundraisers.
- Report all expenses of raising contributions in Fundraising, column (D), Part II, and on line 15 of Part I. You must show on line 30 professional fundraising fees relating to the gross amounts of contributions collected in the charity's name by fundraisers.
- Report the value of noncash contributions at the time of the donation. **For example**, report the gross value of a donated car at the time the car was received as a donation.
- For grants, see **Grants that are equivalent to contributions**, on the following page.  
Reporting for line 1, in accordance with SFAS 116, is acceptable for Form 990 purposes, but not required by IRS. However, see General Instruction E.

An organization that receives a grant to be paid in future years should, according to SFAS 116, report the grant's present value on line 1. Accruals of present value increments to the unpaid grant should also be reported on line 1 in future years.

#### Contributions can arise from special events when an excess payment is received for items offered

Fundraising activities relate to soliciting and receiving contributions. However, special fundraising activities such as dinners, door-to-door sales of merchandise, carnivals, and bingo games can produce **both** contributions and revenue.

If a buyer, at such a “special event,” pays more for goods or services than their retail value, report, as a contribution, both on line 1a and on line 9a (within the parentheses), any amount paid in excess of the retail value. This situation usually occurs when organizations seek public support through solicitation programs that are in part special events or activities and are in part solicitations for contributions. The primary purpose of such solicitations is to receive contributions and not to sell the merchandise at its retail value even though this might produce a profit.

**Example.** An organization announces that anyone who contributes at least \$40 to the organization can choose to receive a book worth \$16 retail value. A person who gives \$40, and who chooses the book, is really purchasing the book for \$16 and also making a contribution of \$24. The contribution of \$24, which is the difference between the buyer's payment and the \$16 retail value of the book, would be reported on line 1a and again on line 9a (within the parentheses). The revenue received (\$16 retail value of the book) would be reported in the right-hand column on line 9a.

If a contributor gives more than \$40, that person would be making a larger contribution, the difference between the book's retail value of \$16 and the amount actually given. Rev. Rul. 67-246, 1967-2 C.B. 104, explains this principle in detail. See also the line 9 instructions and Pub. 526.

Report the expenses that relate directly to the sale of the book on line 9b. Report the expenses of raising contributions (shown within the parentheses on line 9a and again on line 1a) in Fundraising, column (D), Part II, and on line 15 of Part I.

**Note:** *At the time of any solicitation or payment, organizations that are eligible to receive tax-deductible contributions should advise patrons of the amount deductible for Federal tax purposes. See General Instruction L.*

#### Contributions can arise from special events when items of only nominal value are given or offered

If an organization offers goods or services of only nominal value through a special event or distributes free, unordered, low-cost items to patrons, report the **entire** amount received for such benefits as a contribution on line 1a (direct public support). Report all related expenses in Fundraising, column (D), Part II. See General Instruction L for a definition of benefits that have a nominal or insubstantial value.

#### Section 501(c)(3) organizations

Correctly dividing gross receipts from special events into revenue and contributions is especially important for a section 501(c)(3) organization that claims public support as described in section 509(a)(1)/170(b)(1)(A)(vi) or section 509(a)(2). In the public support computations of these Code sections, the revenue portion of gross receipts may be **(a)** excluded entirely, **(b)** treated as public support, or **(c)** if the revenue represents unrelated trade or business income, treated as nonpublic support.

Section 501(c)(3) organizations must separate gross receipts from special events into revenue and contributions when preparing the Support Schedule in Part IV-A of Schedule A (Form 990 or 990-EZ).

#### Section 501(c)(9), (17), and (18) organizations

These organizations provide participants with life, sickness, accident, welfare, and unemployment insurance, pensions, or similar benefits, or a combination of these benefits. When such an organization receives payments from participants or their employers to provide these benefits, report the payments on line 2 as program service revenue, rather than on line 1 as contributions.

#### Donations of services are not contributions

In Part I, do not include the value of services donated to the organization, or items such as the free use of materials, equipment, or

facilities as contributions on line 1. See the instructions for Part III and for Part VI, line 82, for the optional reporting of such amounts in Parts III and VI.

Any unreimbursed expenses of officers, employees, or volunteers do not belong on the Form 990 or Form 990-EZ. See the instructions for charitable contributions and employee business expenses in Pub. 526 and Pub. 463, respectively.

### Grants that are equivalent to contributions

Grants that encourage an organization receiving the grant to carry on programs or activities that further its exempt purposes are grants that are equivalent to contributions. Report them on line 1. The grantor may require that the programs of the grant recipient (grantee) conform to the grantor's own policies and may specify the use of the grant, such as use for the restoration of a historic building or a voter registration drive.

A grant is still equivalent to a contribution if the grant recipient provides a service or makes a product that benefits the grantor incidentally. See examples in the line 1c instructions. However, a grant is a payment for services, and not a contribution, if the grant requires the grant recipient to provide that grantor with a specific service, facility, or product rather than to give a direct benefit primarily to the general public or to that part of the public served by the organization. In general, do not report as contributions any payments for a service, facility, or product that primarily give some economic or physical benefit to the payer (grantor).

**Example.** A public interest organization described in section 501(c)(4) makes a grant to another organization to conduct a nationwide survey to determine voter attitudes on issues of interest to the grantor. The grantor plans to use the results of the survey to plan its own program for the next 3 years. Under these circumstances, since the survey serves the grantor's direct needs and benefits the grantor more than incidentally, the grant to the organization making the survey is not a contribution. The grant recipient should not report the grant as a contribution but should report it on line 2 as program service revenue.

Treat research to develop products for the payer's use or benefit as directly serving the payer. However, generally, basic research or studies in the physical or social sciences should not be treated as serving the payer's needs.

See Regulations section 1.509(a)-3(g) to determine if a grant is a contribution reportable on line 1, or a revenue item reportable elsewhere on Form 990.

### Line 1a—Direct public support

**Contributions, gifts, grants, and similar amounts received.** Enter the gross amounts of contributions, gifts, grants, and bequests that the organization received directly from the public. Include:

- All donated items. **For example,** a car is donated to an organization. Immediately after the organization receives the donated car, the organization sells the car. The organization includes the value of the car as of the time of its receipt as a contribution on line 1a and includes it in the total on line 1d as a noncash contribution.

- All funds or the entire value of noncash items raised by an outside fundraiser in a charity's name and **not** just the amount actually received by the charity. **For example,** a corporation solicits and sells cars in a charity's name. When a car is received, its entire value is reported as a contribution.

- Amounts received from individuals, trusts, corporations, estates, and foundations, or raised by an outside professional fundraiser.
- Include contributions and grants from public charities and other exempt organizations that are neither fundraising organizations nor affiliates of the filing organization.
- See the instructions for line 1b.

**Membership dues.** Report on line 1a membership dues and assessments that represent contributions from the public rather than payments for benefits received or payments from affiliated organizations. See the instructions for line 3.

**Government contributions (grants).** Report government grants on line 1c if they represent contributions, or on line 2 (and on line 93(g) of Part VII), if they represent fees for services. See the instructions under the heading, **Grants that are equivalent to contributions**, above and the instructions for line 1c below.

**Commercial co-venture.** Report amounts contributed by a commercial co-venture on line 1a as a contribution received directly from the public. These are amounts received by an organization (donee) for allowing an outside organization (donor) to use the donee's name in a sales promotion campaign. In such a campaign, the donor advertises that it will contribute a certain dollar amount to the donee organization for each unit of a particular product or service sold or for each occurrence of a specific type.

**Contributions received through special events.** Report contributions received through special events on line 1a. See the preceding line 1 instructions and the instructions for line 9.

### Line 1b—Indirect public support

Enter the total contributions received indirectly from the public through solicitation campaigns conducted by federated fundraising agencies and similar fundraising organizations (such as a United Way organization and certain sectarian federations). These organizations normally conduct fundraising campaigns within a single metropolitan area or some part of a particular state and allocate part of the net proceeds to each participating organization on the basis of the donors' individual designations and other factors.

Include on line 1b amounts contributed by other organizations closely associated with the reporting organization. This includes contributions received from a parent organization, subordinate, or another organization with the same parent. National organizations that share in fundraising campaigns conducted by their local affiliates should report the amount they receive on line 1b.

### Line 1c—Government contributions (grants)

The general line 1 instructions, under the heading, **Grants that are equivalent to contributions**, above apply to this item in particular. A grant or other payment from a governmental unit is treated as a contribution if its primary purpose is to enable the donee to provide a service to, or maintain a facility for, the direct benefit of the public rather than to serve the direct and immediate needs of the grantor even if the public pays part of the expense of providing the service or facility.

The following are examples of governmental grants and other payments that are treated as contributions:

1. Payments by a governmental unit for the construction or maintenance of library or hospital facilities open to the public.

2. Payments under government programs to nursing homes or homes for the aged in order to provide health care or other services to their residents.

3. Payments to child placement or child guidance organizations under government programs serving children in the community. The general public gets the primary and direct benefit from these payments and any benefit to the governmental unit itself would be indirect and insubstantial as compared to the public benefit.

### Line 1d—Total contributions, etc.

Enter the total of amounts reported on lines 1a through 1c. In the entry spaces in the description column for line 1d, enter the separate totals for cash and noncash contributions, gifts, grants, and similar amounts received. The total of the two amounts must equal the total on line 1d.

Report as cash contributions, etc., only contributions, etc., received in the form of cash, checks, money orders, credit card charges, wire transfers, and other transfers and deposits to a cash account of the organization. If your organization records pledges as contributions, etc., at the time the pledges are made (rather than when the pledges are collected), include as cash contributions, etc., only those pledges actually collected in cash during the year and pledges uncollected at the end of the year that are reasonably expected to be paid in cash in a later year. Report all other contributions, etc., as noncash contributions, etc., in the space provided. Be sure to include as a noncash contribution donated items like cars and clothing valued as of the time of their receipt even if these items were made available for sale immediately after they were received. See General Instruction L and Schedule B (Form 990, 990-EZ, or 990-PF), and lines 1 and 1a for a discussion of noncash contributions.

Noncash contributions do not include donated services, which may be reported on line 82 and in the narrative section of Part III.

**Schedule of contributors.** Attach Schedule B (Form 990, 990-EZ, or 990-PF). See General Instruction L and the Specific Instructions for Completing the Heading of Form 990, Item M.

### Lines 2 through 11

**Note:** Do not enter any contributions on lines 2 through 11. Enter all contributions on line 1. If you enter contributions on lines 2 through 11, you will be unable to complete Part VII correctly. Line 105 (the sum of amounts entered in columns (B), (D), and (E) for lines 93 through 103 of Part VII, Analysis of Income-Producing Activities) should match the total of amounts entered for correlating lines 2 through 11 of Part I. See the instructions for Part VII.

### Line 2—Program service revenue including Medicare, Medicaid payments and government fees and contracts

Enter the total of program service revenue (exempt function income) as reported in Part VII, lines 93(a) through (g), columns (B), (D), and (E). Program services are primarily those that form the basis of an organization's exemption from tax. For a more detailed description of program services, refer to the instructions for Part II, column (B), Program services.

**Examples.** A hospital would report on this line all of its charges for medical services (whether to be paid directly by the patients or through Medicare, Medicaid, or other third-party reimbursement), hospital parking lot fees, room charges, laboratory fees for hospital patients, and related charges for services.

Program service revenue includes income earned by the organization for providing a government agency with a service, facility, or product that benefited that government agency directly rather than benefiting the public as a whole. See the line 1c instructions for reporting guidelines when payments are received from a government agency for providing a service, facility, or product for the primary benefit of the general public.

Program service revenue also includes: tuition received by a school; revenue from admissions to a concert or other performing arts event or to a museum; royalties received as author of an educational publication distributed by a commercial publisher; interest income on loans a credit union makes to its members; payments received by a section 501(c)(9) organization from participants, or employers of participants, for health and welfare benefits coverage; insurance premiums received by a fraternal beneficiary society; and registration fees received in connection with a meeting or convention.

**Program-related investments.** Program service revenue also includes income from program-related investments. These investments are made primarily to accomplish an exempt purpose of the investing organization rather than to produce income. Examples are scholarship loans and low interest loans to charitable organizations, indigents, or victims of a disaster.

Rental income from an exempt function is another example of program-related investment income. When an organization rents to an unaffiliated exempt organization at less than fair rental value for the purpose of aiding that tenant's exempt function, the reporting organization should report such rental income as program service revenue on line 2. See also the instructions for line 6a. For purposes of this return, report all rental income from an affiliated organization on line 2.

**Unrelated trade or business activities.** Unrelated trade or business activities (not including any special events or activities) that generate fees for services may also be program service activities. A social club, for example, should report as program service revenue the fees it charges both members and nonmembers for the use of its tennis courts and golf course.

**Sales of inventory items by hospitals, colleges, and universities.** Books and records maintained in accordance with generally accepted accounting principles for hospitals, colleges, and universities are more specialized than books and records maintained according to those accounting principles for other types of organizations that file Form 990. Accordingly, hospitals, colleges, and universities may report, as program service revenue on line 2, sales of inventory items otherwise reportable on line 10a. In that event, show the applicable cost of goods sold as program service expense on line 13 of Part I and in column (B) of Part II. All other organizations, however, should not report sales of inventory items on line 2.

### Line 3—Membership dues and assessments

Enter members' and affiliates' dues and assessments that are not contributions.

**Dues and assessments received that compare reasonably with available benefits.** When dues and assessments are received that compare reasonably with membership benefits received, report such dues and assessments on line 3.

Organizations described in section 501(c)(5), (6), or (7) generally provide benefits

that have a reasonable relationship to dues, although benefits to members may be indirect.

**Dues or assessments received that exceed the value of available membership benefits.** Whether or not membership benefits are used, dues received by an organization, to the extent they are more than the monetary value of the membership benefits available to the dues payer, are a contribution that should be reported on line 1a. See Rev. Rul. 54-565, 1954-2 C.B. 95 and Rev. Rul. 68-432, 1968-2 C.B. 104.

**Dues received primarily for the organization's support.** If a member pays dues mainly to support the organization's activities and not to obtain benefits of more than nominal monetary value, those dues are a contribution to the organization includible on line 1a.

**Examples of membership benefits.** These include subscriptions to publications, newsletters (other than one about the organization's activities only), free or reduced-rate admissions to events the organization sponsors, the use of its facilities, and discounts on articles or services that both members and nonmembers can buy. In figuring the value of membership benefits, do not include intangible benefits, such as the right to attend meetings, vote or hold office in the organization, and the distinction of being a member of the organization.

### Line 4—Interest on savings and temporary cash investments

Enter the amount of interest income from savings and temporary cash investments reportable on line 46. So-called dividends or earnings received from mutual savings banks, money market funds, etc., are actually interest and should be entered on line 4.

### Line 5—Dividends and interest from securities

Enter the amount of dividend and interest income from equity and debt securities (stocks and bonds) of the type reportable on line 54. Include amounts received from payments on securities loans, as defined in section 512(a)(5). Do not include any capital gains dividends that are reportable on line 8. See the instructions for line 2 for reporting income from program-related investments.

### Line 6a—Gross rents

Enter on line 6a the rental income received for the year from investment property reportable on line 55. Do not include on line 6a rental income related to the reporting organization's exempt function (program service). Report such income on line 2. For example, an exempt organization whose exempt purpose is to provide low-rental housing to persons with low income would report that rental income as program service revenue on line 2. Rental income received from an unaffiliated exempt organization is generally considered as unrelated to the reporting organization's exempt purpose and reportable on line 6a. However, note an exception given in the instructions for line 2 when the reporting organization aids an unaffiliated organization with its exempt function.

Only for purposes of completing this return, the reporting organization must report any rental income received from an affiliated exempt organization as program service revenue on line 2.

### Line 6b—Rental expenses

Enter the expenses paid or incurred for the income reported on line 6a. Include interest related to rental property and depreciation if it is recorded in the organization's books and records. Report in column (B) of Part II

(Program services) any rental expenses allocable to rental income reportable as program service revenue on line 2.

### Line 6c—Net rental income or (loss)

Subtract line 6b from line 6a. Show any loss in parentheses.

### Line 7—Other investment income

Enter the amount of investment income not reportable on lines 4 through 6 and describe the type of income in the space provided or in an attachment. The income should be the gross amount derived from investments reportable on line 56. Include, for example, royalty income from mineral interests owned by the organization. However, do not include income from program-related investments. See the instructions for line 2. Also, do not include unrealized gains and losses on investments carried at market value. See the instructions for line 20.

### Lines 8a through 8d—Gains (or losses) from sale of assets other than inventory

Report, on lines 8a through 8c, all sales of securities in column (A). Use column (B) to report sales of all other types of investments (such as real estate, royalty interests, or partnership interests) and all other noninventory assets (such as program-related investments and fixed assets used by the organization in its related and unrelated activities).

On line 8a, for each column, enter the total gross sales price of all such assets. Total the cost or other basis (less depreciation) and selling expenses and enter the result on line 8b. On line 8c, enter the net gain or loss.

On lines 8a and 8c, also report capital gains dividends, the organization's share of capital gains and losses from a partnership, and capital gains distributions from trusts. Indicate the source on the schedule described below.

Combine the gain and/or loss figures reported on line 8c, columns (A) and (B) and report that total on line 8d. Do not include any unrealized gains or losses on securities carried at market value in the books of account. See the instructions for line 20.

For reporting sales of securities on Form 990, you may use the more convenient average cost basis method to figure the organization's gain or loss. When a security is sold, compare its sales price with the average cost basis of the particular security to determine gain or loss. However, generally, for reporting sales of securities on Form 990-T, do not use the average cost basis to determine gain or loss.

### Nonpublicly traded securities and noninventory items

Attach a schedule showing the sale or exchange of nonpublicly traded securities and the sale or exchange of other assets that are not inventory items. The schedule should show security transactions separately from the sale of other assets. Show for each of these assets:

- Date acquired and how acquired,
- Date sold and to whom sold,
- Gross sales price,
- Cost, other basis, or if donated, value at time acquired (state which),
- Expense of sale and cost of improvements made after acquisition, and
- If depreciable property, depreciation since acquisition.

**Publicly traded securities.** On the attached schedule, for sales of publicly traded securities through a broker, total the gross sales price, the cost or other basis, and the expenses of sale on all such securities sold, and report lump-sum figures in place of the detailed

reporting required by the above paragraph. Publicly traded securities include common and preferred stocks, bonds (including governmental obligations), and mutual fund shares that are listed and regularly traded in an over-the-counter market or on an established exchange and for which market quotations are published or otherwise readily available.

### Lines 9a through 9c—Special events and activities

On the appropriate line, enter the gross revenue, expenses, and net income (or loss) from all special events and activities, such as dinners, dances, carnivals, raffles, bingo games, other gambling activities, and door-to-door sales of merchandise.

These activities only incidentally accomplish an exempt purpose. Their sole or primary purpose is to raise funds that are other than contributions to finance the organization's exempt activities. This is done by offering goods or services that have more than a nominal value (compared to the price charged) for a payment that is more than the direct cost of those goods or services.

The gross revenue from gambling activities and other special events must be reported in the right-hand column on line 9a without reduction for cash or noncash prizes, cost of goods sold, compensation, fees, or other expenses.

Characterizing any required payment as a "donation" or "contribution" on tickets or on advertising or solicitation materials does not affect how such payments should be reported on Form 990 or Form 990-EZ. As discussed in the instructions for line 1, the amount of the contribution is the excess of the amount paid over the retail value of the goods or services received by the payer. See also Pub. 526.

**Special events may generate both revenue and contributions.** Special events sometimes generate both contributions and revenue. When a buyer pays more than the retail value of the goods or services furnished, enter:

- As gross revenue, on line 9a (in the right-hand column), the retail value of the goods or services,
- As a contribution, on both line 1a and line 9a (within the parentheses), the amount received that exceeds the retail value of the goods or services given.

Report on line 9b only the expenses directly attributable to the goods or services the buyer receives from a special event. Fundraising expenses attributable to contributions, reported on both line 1a and line 9a (within the parentheses), are reportable in Part II, column (D), Fundraising. If you include an expense on line 9b, do not report it again on line 10b or in Part II. Expenses reported on line 10b relate to sales of inventory. Expenses reported in Part II, column (D), relate to contributions raised through fundraising.

**Example.** At a special event, an organization received \$100 in gross receipts for goods valued at \$40. The organization entered gross revenue of \$40 on line 9a (in the right-hand column) and entered a contribution of \$60 on both line 1a and line 9a (within the parentheses). The contribution of \$60 was the difference between the gross revenue of \$40 and the gross receipts of \$100.

The expenses directly relating to the sale of the goods would be reported on line 9b. However, all expenses of raising contributions would be reported in column (D), Fundraising, Part II and not on line 9b.

For more details about contributions received through fundraising, and contributions and revenue received through special events,

see the line 1 instructions. See also General Instruction L and its references.

**Sales or gifts of goods or services of only nominal value.** If the goods or services given or offered at special events have only nominal value, include all of the receipts as contributions on line 1a and all of the related expenses as fundraising expenses on line 15 and in column (D) of Part II. See General Instruction L for a description of nominal or insubstantial benefits.

**An activity may generate only contributions.** An activity that generates only contributions, such as a solicitation campaign by mail, is not a special event and should not be reported on line 9.

Contributions from such an activity are reportable on line 1, and the related fundraising expenses are reportable in column (D), Part II.

**Sweepstakes, raffles, and lotteries may produce revenue or contributions.** The proceeds of solicitation campaigns in which the names of contributors and other respondents are entered in a drawing for the awarding of prizes (so-called "sweepstakes" or "lotteries") are contributions, reportable on line 1, and the related expenses are fundraising expenses, reportable in column (D) of Part II. However, raffles and lotteries in which a payment of at least a specified minimum amount is required for each entry are special events, reportable on line 9, unless the prizes awarded have only nominal value. Reporting payments in their entirety as contributions when gifts or services given are nominal in value is discussed above.

**Attached schedule.** Attach a schedule listing the three largest special events conducted, as measured by gross receipts. Describe each of these events and show for each event: the gross receipts; the amount of contributions included in gross receipts (see the instructions above); the gross revenue (gross receipts less contributions); the direct expenses; and the net income (or loss) (gross revenue less direct expenses).

Include the same information, in total figures, for all other special events held that were not among the three largest. Indicate the type and number of the events not listed individually (e.g., three dances and two raffles).

An example of this schedule of special events might appear in columnar form as follows:

| Special Events:       | All  |      |      |       |       |
|-----------------------|------|------|------|-------|-------|
|                       | (A)  | (B)  | (C)  | Other | Total |
| Gross Receipts        | \$xx | \$xx | \$xx | \$xx  | \$xx  |
| Less: Contributions   | xx   | xx   | xx   | xx    | xx    |
| Gross Revenue         | xx   | xx   | xx   | xx    | xx    |
| Less: Direct Expenses | xx   | xx   | xx   | xx    | xx    |
| Net Income or (loss)  | \$xx | \$xx | \$xx | \$xx  | \$xx  |

If you use the above schedule, report the total for Contributions on line 1a of Form 990 and on line 9a (within the parentheses). Report the totals for Gross Revenue, in the right-hand column, on line 9a; Direct Expenses on line 9b; and Net Income or (loss) on line 9c.

### Lines 10a through 10c—Gross profit or (loss) from sales of inventory

Enter the gross sales (less returns and allowances), cost of goods sold, and gross profit or (loss) from the sale of inventory items. These sales do not include items sold at special events that are reportable on line 9. Sales of inventory items reportable on line 10 are sales of those items the organization makes to sell to others or buys for resale. Sales of investments on which the organization expected to profit by appreciation and sale are not reported here. Report sales of investments on line 8.

On line 10a, report gross sales revenue from sales of inventory items, whether the sales activity is an exempt function of the organization or an unrelated trade or business.

On line 10b, report the cost of goods sold related to the sales of such inventory. The usual items included in cost of goods sold are direct and indirect labor, materials and supplies consumed, freight-in, and a proportion of overhead expenses. Marketing and distribution costs are not included in cost of goods sold but are reported in Part II, column (B), Program services.

**Attached schedule.** In an attached schedule, give a breakdown of items sold; (e.g., sales of food, souvenirs, electronic equipment, uniforms, or educational publications).

### Line 11—Other revenue

Enter the total amount from Part VII, lines 103(a) through (e) (Other revenue), columns (B), (D), and (E). This figure represents the total income from all sources not covered by lines 1 through 10 of Part I. Examples of income includible on line 11 are interest on notes receivable not held as investments or as program-related investments (defined in the line 2 instructions); interest on loans to officers, directors, trustees, key employees, and other employees; and royalties that are not investment income or program service revenue.

### Lines 13 through 15—Program services, management and general, and fundraising expenses

**Section 4947(a)(1) nonexempt charitable trusts and section 501(c)(3) and (4) organizations.** Complete Part II and then enter on lines 13 through 15 the appropriate amounts from the totals for columns (B), (C), and (D) reported on line 44, Part II.

**All other organizations.** All other organizations are not required to complete lines 13 through 15 of the Form 990.

### Line 16—Payments to affiliates

This expense classification is used to report certain types of payments to organizations "affiliated with" (closely related to) a reporting agency.

**Payments to affiliated state or national organizations.** Dues paid by the local charity to its affiliated state or national (parent) organization are usually reported on line 16. Report on this line predetermined quota support and dues (excluding membership dues of the type described below) by local agencies to their state or national organizations for unspecified purposes; that is, general use of funds for the national organization's own program and support services.

**Purchases from affiliates.** Purchases of goods or services from affiliates are not reported on line 16 but are reported as expenses in the usual manner.

**Expenses for providing goods or services to affiliates.** In addition to payments made directly to affiliated organizations, expenses incurred in providing goods or services to affiliates may be reported on line 16 if:

1. The goods or services provided are not related to the program services conducted by the organization furnishing them (e.g., when a local organization incurs expenses in the production of a solicitation film for the state or national organization); and

2. The costs involved are not connected with the management and general or fundraising functions of the reporting organization. For example, when a local organization gives a copy of its mailing list to the state or national organization, the expense

of preparing the copy provided may be reported on line 16, but not expenses of preparing and maintaining the local organization's master list.

**Federated fundraising agencies.** These agencies (see the instructions for line 1b) should include in their own support the full amount of contributions received in connection with a solicitation campaign they conduct, even though donors designate specific agencies to receive part or all of their individual contributions. These fundraising organizations should report the allocations to participating agencies as grants and allocations (line 22) and quota support payments to their state or national organization as payments to affiliates (line 16).

**Voluntary awards or grants to affiliates.** Do not report on line 16 voluntary awards or grants made by the reporting agency to its state or national organization for specified purposes. Report these awards or grants on line 22, Grants and allocations.

**Membership dues paid to other organizations.** Report membership dues paid to obtain general membership benefits, such as regular services, publications, and materials, from other organizations as "Other expenses" on line 43. This is the case, for example, if a charitable organization pays dues to a trade association comprised of otherwise unrelated members.

**Attached schedule.** Attach a schedule listing the name and address of each affiliate that received payments reported on line 16. Specify the amount and purpose of the payments to each affiliate.

**Note:** *Properly distinguishing between payments to affiliates and grants and allocations is especially important if you use Form 990 for state reporting purposes. See General Instruction E. If you use Form 990 only for reporting to the IRS, payments to affiliated state or national organizations that do not represent membership dues reportable as "Other expenses" on line 43 (see instructions above) may be reported either on line 16 or line 22 and explained in the required attachment.*

### Line 17—Total expenses

Organizations using only column (A) of Part II should enter the total of line 16 and line 44 of column (A), Part II, on line 17. Other organizations should enter the total of lines 13 through 16. Organizations using Form 5500 or an approved DOL form as a partial substitute for Form 990 should enter the total expense figure from Form 5500, or from the required reconciliation schedule if Form LM-2 or LM-3 is used. See General Instruction F.

### Line 18—Excess or (deficit) for the year

Enter the difference between lines 12 and 17. If line 17 is more than line 12, enter the difference in parentheses.

### Line 19—Net assets or fund balances, beginning of year

Enter the balance at the beginning of the year as reported in column (A) of line 73 (or from Form 5500 or an approved DOL form if General Instruction F applies). The balance at the beginning of the year for line 19 was the end of the year balance for line 21 and 73 as reported on the organization's prior year return.

### Line 20—Other changes in net assets or fund balances

Attach a schedule explaining any changes in net assets or fund balances between the beginning and end of the year that are not accounted for by the amount on line 18.

Amounts to report here include adjustments of earlier years' activity; unrealized gains and losses on investments carried at market value; and any difference between fair market value and book value of property given as an award or grant. See General Instruction G regarding the reporting of a section 481(a) adjustment to conform to SFAS 116.

### Line 21—Net assets or fund balances, end of year

Enter the total of lines 18, 19, and 20. This total figure must equal the amount reported for the end of the year in column (B) of line 73.

## Part II—Statement of Functional Expenses

### In General—

#### Column (A)

All organizations must complete column (A) unless they are using an approved DOL form or Form 5500 as a partial substitute for Form 990. See General Instruction F.

#### Columns (B), (C), and (D)

These columns are optional for all organizations except section 4947(a)(1) nonexempt charitable trusts and section 501(c)(3) and (4) organizations. Section 4947(a)(1) nonexempt charitable trusts and section 501(c)(3) and (4) organizations must complete columns (B), (C), and (D).

In Part II, the organization's expenses are designated by object classification (e.g., salaries, legal fees, supplies, etc.) and allocated into three functions: program services (column (B)); management and general (column (C)); and fundraising (column (D)). These functions are explained below in the instructions for the columns. Do not include in Part II any expense items you must report on lines 6b, 8b, 9b, 10b, or 16 in Part I.

For reporting to the IRS only, use the organization's normal accounting method to report total expenses in column (A) and to segregate them into functions under columns (B), (C), and (D). However, for state reporting requirements, see General Instructions E and G. If the accounting system does not provide for this type of segregation, a reasonable method of allocation may be used. The amounts reported should be accurate and the method of allocation documented in the organization's records.

Report, in the appropriate column, expenses that are directly attributable to a particular functional category. In general, allocate expenses that relate to more than one functional category. For example, allocate employees' salaries on the basis of each employee's time. For some shared expenses such as occupancy, supplies, and depreciation of office equipment, use an appropriate basis for each kind of cost. However, you should report some other shared expenses in column (C) only. The column instructions below discuss allocating expenses.

#### Column (A)—Total

For column (A), total each line item of columns (B), (C), and (D) in Part II. Except for expenses you report on lines 6b, 8b, 9b, 10b, or 16 of Part I, you should use column (A) to report all expenses the organization paid or incurred.

#### Column (B)—Program services

Program services are mainly those activities that the reporting organization was created to conduct and which, along with any activities commenced subsequently, form the basis of the organization's current exemption from tax. They may be self-funded or funded out of contributions, accumulated income, investment

income, or any other source. Fundraising expenses should not be reported as program related expenses even though one of the functions of the organization is to solicit contributions for other organizations.

Program services can also include the organization's unrelated trade or business activities. For example, publishing a magazine is a program service even though the magazine contains both editorials and articles that further the organization's exempt purpose and advertising, the income from which is taxable as unrelated business income.

If an organization receives a grant to do research, produce an item, or perform a service, either to meet the grantor's specific needs or to benefit the public directly, the costs incurred represent program service expenses. Do not treat these costs as fundraising expenses, even if you report the grant on line 1 as a contribution.

#### Column (C)—Management and general

Use column (C) to report the organization's expenses for overall function and management, rather than for its direct conduct of fundraising activities or program services. Overall management usually includes the salaries and expenses of the chief officer of the organization and that officer's staff. If part of their time is spent directly supervising program services and fundraising activities, their salaries and expenses should be allocated among those functions.

Other expenses to report in column (C) include those for meetings of the board of directors or similar group; committee and staff meetings (unless held in connection with specific program services or fundraising activities); general legal services; accounting (including patient accounting and billing); general liability insurance; office management; auditing, personnel, and other centralized services; preparation, publication, and distribution of an annual report; and investment expenses (however, report rental income expenses on line 6b and program-related income expenses in column (B)).

You should report only general expenses in column (C). Do not use this column to report costs of special meetings or other activities that relate to fundraising or specific program services.

#### Column (D)—Fundraising

Fundraising expenses are the total expenses incurred in soliciting contributions, gifts, grants, etc. Report as fundraising expenses all expenses, including allocable overhead costs, incurred in: (a) publicizing and conducting fundraising campaigns; (b) soliciting bequests and grants from foundations or other organizations, or government grants reportable on line 1c; (c) participating in federated fundraising campaigns; (d) preparing and distributing fundraising manuals, instructions, and other materials; and (e) conducting special events that generate contributions reportable on line 1a, in addition to revenue reportable in the right-hand column on line 9a. However, report any expenses that are directly attributable to revenue shown on line 9a (i.e., the direct expenses incurred in furnishing the goods or services sold) on line 9b.

#### Allocating indirect expenses

Colleges, universities, hospitals, and other organizations that accumulate indirect expenses in various cost centers (such as the expenses of operating and maintaining the physical plant) that are reallocated to the program services and other functional areas of the organization in single or multiple steps may

find it easier to report these expenses in the following optional manner:

**First**, report the expenses of these indirect cost centers on lines 25 through 43 of column (C), Management and general, along with the expenses properly reportable in that column.

**Second**, allocate the total expenses for each cost center to columns (B), (C), and (D) (Program services, Management and general, and Fundraising) as a separate item entry on line 43, Other expenses. Enter the name of the cost center on line 43. If any of the cost center's expenses are to be allocated to the expenses listed in Part I (such as the expenses attributable to special events and activities), enter these expenses as a negative figure in columns (A) and (C). This prevents reporting the same expense in both Parts I and II. If part of the total cost center expenses are to be allocated to columns (B), Program services, and (D), Fundraising, enter these expenses as positive amounts in these columns and as single negative amounts in column (C), Management and general. Do not make any entries in column (A), Total, for these offsetting entries.

**Example.** An organization reports in column (C) \$50,000 of its actual management and general expenses and \$100,000 of expenses of an indirect cost center that are allocable in part to other functions. The total of lines 25 through 43 of column (C) would be \$150,000 before the indirect cost center allocations were made. Assume that \$10,000 (of the \$100,000 total expenses of the cost center) was allocable to fundraising; \$70,000 to various program services; \$15,000 to management and general functions; and \$5,000 to special events and activities. To report this in Part II under this alternate method:

1. Indicate the cost center, the expenses of which are being allocated, on line 43, as "Allocation of (specify) expenses";
2. Enter a decrease of \$5,000 on the same line in the column (A), Total, representing the special event expenses that were already reported on line 9b in Part I;
3. Enter \$70,000 on the same line in column (B), Program services;
4. Enter \$10,000 on the same line in column (D), Fundraising; and
5. Enter a decrease of \$85,000 on the same line in column (C), Management and general, to represent the allocations to functional areas other than management and general.

| Line  | (A)       | (B)       | (C)       | (D)       |
|---|-----------|-----------|-----------|-----------|
| 25-43a . . . . .  | \$150,000 | \$ —      | \$150,000 | \$ —      |
| 43b Allocation of the \$100,000 indirect cost center expenses reported in (C) . . . . . | (5,000)   | 70,000    | (85,000)  | 10,000    |
| 44 . . . . .  | \$145,000 | \$ 70,000 | \$ 65,000 | \$ 10,000 |

After making these allocations, the column (C) total (line 44, column (C)) would be \$65,000, consisting of the \$50,000 actual management and general expense amount and the \$15,000 allocation of the aggregate cost center expenses to management and general.

The above is an example of a one-step allocation that shows how to report the allocation in Part II. This reporting method would actually be needed more for multiple step allocations involving two or more cost centers. The total expenses of the first would be allocated to the other functions, including an allocation of part of these expenses to the second cost center. The expenses of the second cost center would then be allocated to other functions and any remaining cost centers

to be allocated, and so on. The greater the number of these cost centers that are allocated out, the more difficult it is to preserve the object classification identity of the expenses of each cost center (e.g., salaries, interest, supplies, etc.). Using the reporting method described above avoids this problem.

**Note:** *The intent of the above instructions is only to facilitate reporting indirect expenses by both object classification and function. These instructions do not permit the allocation to other functions of expenses that should be reported as management and general expenses.*

### Line 22—Grants and allocations

Enter the amount of awards and grants to individuals and organizations selected by the filing organization. United Way and similar fundraising organizations should include allocations to member agencies.

Report voluntary awards and grants to affiliated organizations for specific (restricted) purposes or projects also on line 22, but not required payments to affiliates reportable on line 16.

Report scholarship, fellowship, and research grants to individuals on line 22. Certain other payments to, or for the benefit of, individuals may be reportable on line 23 instead. See the instructions for line 23 for details.

Report only the amount of actual grants and awards on line 22. Report expenses incurred in selecting recipients, or monitoring compliance with the terms of a grant or award, on lines 25 through 43.

In the spaces provided, give separate totals for cash and noncash grants and allocations made. Cash grants include only grants and allocations paid by cash, checks, money orders, wire transfers, and other charges against funds on deposit at a financial institution.

Reporting for line 22, in accordance with SFAS 116, is acceptable for Form 990 purposes, but not required by IRS. However, see General Instruction E.

An organization that makes a grant to be paid in future years should, according to SFAS 116, report the grant's present value on line 22. Accruals of present value increments to the unpaid grant should also be reported on line 22 in future years.

**Attached schedule.** Attach a schedule of amounts reported on line 22. Any grants or allocations reported on line 22 that were approved during the year, but not paid by the due date for filing Form 990 (including extensions), must be identified and listed separately in the schedule for line 22. Show on the schedule: (a) each class of activity; (b) grantee's name, address, and the amount given; and (c) (in the case of grants to individuals) relationship of grantee if related by blood, marriage, adoption, or employment (including employees' children) to any person or corporation with an interest in the organization, such as a creator, donor, director, trustee, officer, etc.

On the schedule, classify activities in more detail than in such broad terms as charitable, educational, religious, or scientific. For example, identify payments for nursing services, laboratory construction, or fellowships.

If property other than cash is given, also show on the schedule: (a) a description of the property; (b) its book value and how the book value was determined; (c) its fair market value and how the fair market value was determined; (d) the date of the gift. If the fair market value

of the property when the organization gave it is the measure of the award or grant, record any difference between fair market value and book value in the organization's books of account and on line 20.

Colleges, universities, and primary and secondary schools are not required to list the names of individuals who were provided scholarships or other financial assistance whether they are the recipients of Federal grant money or not. Instead, these organizations must (a) group each type of financial aid provided; (b) indicate the number of individuals who received the aid; and (c) specify the aggregate dollar amount.

### Line 23—Specific assistance to individuals

Enter the amount of payments to, or for the benefit of, particular clients or patients, including assistance rendered by others at the expense of the filing organization. Do not include grants to other organizations that select the person(s) to receive the assistance available through the use of the grant funds. For example, report a payment to a hospital to cover the medical expenses of a particular individual on line 23, but do not report a contribution to a hospital to provide some service to the general public or to unspecified charity patients on this line. Also, do not include scholarship, fellowship, or research grants to individuals even though selected by the grantor organization. Report these grants on line 22 instead.

**Attached schedule.** Attach a schedule showing the total payments for each particular class of activity, such as food, shelter, and clothing for indigents or disaster victims; medical, dental, and hospital fees and charges; and direct cash assistance to indigents. For payments to indigent families, do not identify the individuals.

### Line 24—Benefits paid to or for members

For an organization that provides benefits to members or dependents (such as organizations exempt under section 501(c)(8), (9), or (17)), attach a schedule. Show amounts of: (a) death, sickness, hospitalization, or disability benefits; (b) unemployment compensation benefits; and (c) other benefits (state their nature). Do not report the cost of employment-related benefits the organization provides its officers and employees on this line. Report those expenses on lines 27 and 28.

### Line 25—Compensation of officers, directors, etc.

Enter the total compensation paid to officers, directors, trustees, and key employees for the year. In Part V, give the name and compensation (if any) of each officer, director, trustee, and key employee, along with the other information requested. If no compensation was paid, enter zero. See the Part V instructions for a definition of "key employee."

Form 941 must be filed to report income tax withholding and social security and Medicare taxes. The organization must also file Form 940 to report Federal unemployment taxes unless the organization is not subject to these taxes. See Pub.15 (Circular E) for details. See also the discussion of the Trust Fund Recovery Penalty given in General Instruction D.

### Line 26—Other salaries and wages

Enter the total of employees' salaries not reported on line 25.

### Line 27—Pension plan contributions

Enter the employer's share of contributions to qualified and nonqualified pension plans for the

year. Complete Form 5500 for the organization's plan and file as a separate return. If the organization has more than one plan, complete a form for each plan. File the form by the last day of the 7th month after the plan year ends. See General Instruction D for a discussion of Form 5500.

#### **Line 28—Other employee benefits**

Enter the organization's contributions to employee benefit programs (such as insurance, health, and welfare programs) that are not an incidental part of a pension plan included on line 27. Report expenses for employee events such as a picnic or holiday party on line 28.

#### **Line 29—Payroll taxes**

Enter the amount of Federal, state, and local payroll taxes for the year but only those taxes that are imposed on the organization as an employer. This includes the employer's share of social security and Medicare taxes, the Federal unemployment tax (FUTA), state unemployment compensation taxes, and other state and local payroll taxes. Do not include taxes withheld from employees' salaries and paid to the various governmental units such as Federal and state income taxes and the employees' shares of social security and Medicare taxes.

#### **Line 30—Professional fundraising fees**

Enter the organization's fees to outside fundraisers who are paid primarily for solicitation campaigns they conducted or for consultation services connected with a solicitation of contributions by the organization itself.

#### **Line 31—Accounting fees**

Enter the total accounting and auditing fees charged by outside firms and individuals who are not employees of the reporting organization.

#### **Line 32—Legal fees**

Enter the total legal fees charged by outside firms and individuals who are not employees of the reporting organization. Do not include any penalties, fines, or judgments imposed against the organization as a result of legal proceedings. Report those expenses on line 43, Other expenses.

#### **Line 33—Supplies**

Enter the total for office, classroom, medical, and other supplies used during the year, as determined by the organization's normal method of accounting for supplies.

#### **Line 34—Telephone**

Enter the total telephone, telegram, and similar expenses for the year.

#### **Line 35—Postage and shipping**

Enter the total amount of postage, parcel delivery, trucking, and other delivery expenses, including the cost of shipping materials. Include the costs of outside mailing services on this line.

#### **Line 36—Occupancy**

Enter the total amount paid or incurred for the use of office space or other facilities, heat, light, power, and other utilities (other than telephone expenses reported on line 34), outside janitorial services, mortgage interest, property insurance, real estate taxes, and similar expenses.

Occupancy expenses paid or incurred for program-related income, reportable on line 2,

are included on line 36. Do not subtract rental income received from renting or subletting rented space from the amount reported for occupancy expense on line 36. If the activities of the organization's tenant are related to the reporting organization's exempt purpose, report rental income as program-service revenue and allocable occupancy expenses on line 36. However, if the tenant's activities are not program related, report such rental income on line 6a and related rental expenses on line 6b.

Do not include, as an occupancy expense, depreciation (reportable on line 42) or any salaries of the reporting organization's own employees (reportable on line 26).

#### **Line 37—Equipment rental and maintenance**

Enter the cost of renting and maintaining office equipment and other equipment, except for automobile and truck expenses reportable on lines 35 and 39.

#### **Line 38—Printing and publications**

Enter the printing and related costs of producing the reporting organization's own newsletters, leaflets, films, and other informational materials on this line. Also include the cost of any purchased publications. However, do not include any expenses, such as salaries or postage, for which a separate line is provided in Part II.

#### **Line 39—Travel**

Enter the total travel expenses, including transportation costs (fares, mileage allowances, and automobile expenses), meals and lodging, and per diem payments.

#### **Line 40—Conferences, conventions, and meetings**

Enter the total expenses incurred by the organization in conducting meetings related to its activities. Include such expenses as the rental of facilities, speakers' fees and expenses, and printed materials. Include the registration fees (but not travel expenses) paid for sending any of the organization's staff to conferences, meetings, or conventions conducted by other organizations. However, do not include on this line the salaries and travel expenses of the reporting organization's own officers, directors, trustees, and employees who participate.

#### **Line 41—Interest**

Enter the total interest expense for the year. Do not include any interest attributable to rental property (reportable on line 6b) or any mortgage interest treated as occupancy expense on line 36.

#### **Line 42—Depreciation, depletion, etc.**

If the organization records depreciation, depletion, and similar expenses, enter the total for the year. Include any depreciation (amortization) of leasehold improvements. The organization is not required to use the Modified Accelerated Cost Recovery System (MACRS) to compute the depreciation reported on Form 990 or Form 990-EZ. If the organization records depreciation using MACRS, attach Form 4562, or a schedule showing the same information required by Form 4562. If the organization does not use MACRS, attach a schedule showing how depreciation was computed.

For an explanation of acceptable methods for computing depreciation, see Pub. 946.

If the organization claims a deduction for depletion, attach a schedule explaining the deduction.

#### **Line 43—Other expenses**

Show the type and amount of each significant expense for which a separate line is not provided. Report all other miscellaneous expenses as a single total. Expenses that might be reported here include investment counseling and other professional fees, **but not** professional fundraising fees, accounting fees, or legal fees. These are reportable on lines 30 through 32.

Other expenses includible on line 43 are: penalties, fines, and judgments; unrelated business income taxes; insurance and real estate taxes not attributable to rental property or reported as occupancy expenses; and any marketing and distribution costs not included on other lines of Part II. Attach a schedule if more space is needed.

#### **State reporting—miscellaneous expenses.**

Some states that accept Form 990, or Form 990-EZ, in satisfaction of their filing requirements may require that certain types of miscellaneous expenses be itemized regardless of amount. See General Instruction E.

#### **Line 44—Total functional expenses**

Add lines 22 through 43 and enter the totals on line 44 in columns (A), (B), (C), and (D). Report the total amounts for columns (B), (C), and (D) in Part I, lines 13 through 15.

#### **Reporting of joint costs**

Organizations that included in program service expenses (column (B) of Part II) any joint costs from a combined educational campaign and fundraising solicitation must disclose how the total joint costs of all such combined activities were reported in Part II. Organizations answering "Yes" to the joint-cost question following line 44 must furnish the relevant financial data in the spaces provided.

An organization conducts a combined educational campaign and fundraising solicitation when it solicits contributions (by mail, telephone, broadcast media, or any other means) and includes, with the solicitation, educational material or other information that furthers a bona fide nonfundraising exempt purpose of the organization.

Expenses attributable to providing information regarding the organization itself, its use of past contributions, or its planned use of contributions received are not program service expenses and should not be included in column (B). This is true whether or not the organization accounts for joint costs in accordance with the AICPA's Statement of Position 98-2, *Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities that Include Fund Raising*. Any method of allocating joint costs to program service expenses must be reasonable under the facts and circumstances of each case. Most states with reporting requirements for charitable and other organizations that solicit contributions either require or allow the reporting of joint costs according to Statement of Position 98-2 standards.

## Part III—Statement of Program Service Accomplishments

A program service is a major (usually ongoing) objective of an organization, such as adoptions, recreation for the elderly, rehabilitation, or publication of journals or newsletters.

| Step | Action  |
|------|---|
| 1    | State the organization's primary exempt purpose.  |
| 2    | <p>All organizations must describe their exempt purpose achievements for each of their four largest program services (as measured by total expenses incurred). If there were four or fewer of such activities, describe each program service activity.</p> <ul style="list-style-type: none"> <li>Describe program service accomplishments through measurements such as clients served, days of care, therapy sessions, or publications issued.</li> <li>Describe the activity's objective, for both this time period and the longer-term goal, if the output is intangible, such as in a research activity.</li> <li>Give reasonable estimates for any statistical information if exact figures are not readily available. Indicate that this information is estimated.</li> <li>Be clear, concise, and complete in your description. Avoid adding an attachment.</li> </ul> |
| 3    | <p>If part of the total expenses of any program service consists of grants and allocations reported on line 22, show the amount of grants and allocations in the space provided and include the grants and allocations in the "Expenses" column.</p> <ul style="list-style-type: none"> <li>Section 501(c)(3) and (4) organizations, and section 4947(a)(1) nonexempt charitable trusts, <b>must</b> show the amount of grants and allocations to others and <b>must</b> enter the total expenses for each program service reported.</li> <li>For all other organizations, completing the "Expenses" column (and the "Grants and allocations" entry) in Part III is optional.</li> </ul>  |
| 4    | <p>Attach a schedule that lists the organization's other program services.</p> <ul style="list-style-type: none"> <li>The detailed information required for the four largest services is not necessary for this schedule.</li> <li>Section 501(c)(3) and (4) organizations, and section 4947(a)(1) nonexempt charitable trusts, however, <b>must</b> show the expenses attributable to their program services.</li> </ul>   |

- 5 The organization may show the amount of any donated services, or use of materials, equipment, or facilities it received or utilized in connection with a specific program service.

- Disclose the applicable amounts of any donated services, etc., on the lines for the narrative description of the appropriate program service.
- Do not** include these amounts in the expense column in Part III.
- See the instructions for line 82.

## Part IV—Balance Sheets

All organizations, except those that meet one of the exceptions in General Instruction F, must complete all of Part IV and may not submit a substitute balance sheet. Failure to complete Part IV may result in penalties for filing an incomplete return. See General Instruction K. If there is no amount to report in column (A), Beginning of year, place a zero in that column.

See General Instruction E for details on completing a Form 990, or Form 990-EZ, to be filed with any state or local governmental agency.

When a schedule is required to be attached for any line item in Part IV, it is only for the end-of-year balance sheet figure reported in column (B). Give the end-of-year figures for any receivables or depreciable assets and the related allowances for doubtful accounts or accumulated depreciation reported within the description column.

### Line 45—Cash—non-interest-bearing

Enter the total of non-interest-bearing checking accounts, deposits in transit, change funds, petty cash funds, or any other non-interest-bearing account. Do not include advances to employees or officers or refundable deposits paid to suppliers or others.

### Line 46—Savings and temporary cash investments

Enter the total of interest-bearing checking accounts, savings and temporary cash investments, such as money market funds, commercial paper, certificates of deposit, and U.S. Treasury bills or other governmental obligations that mature in less than 1 year. Report the income from these investments on line 4.

### Line 47—Accounts receivable

Enter the total accounts receivable (reduced by the allowance for doubtful accounts) from the sale of goods and/or the performance of services. Report claims against vendors or refundable deposits with suppliers or others here, if not significant in amount. Otherwise, report them on line 58. Other assets. Report any receivables due from officers, directors, trustees, or key employees on line 50. Report receivables (including loans and advances) due from other employees on line 58.

### Line 48—Pledges receivable

Enter the total pledges receivable recorded as of the beginning and end of the year. Do not include the amount of pledges estimated to be uncollectible.

### Line 49—Grants receivable

Enter the total grants receivable from governmental agencies, foundations, and other organizations as of the beginning and end of the year. Organizations that follow SFAS 116

may report the present value of the grants receivable as of each balance sheet date.

## Line 50—Receivables from officers, directors, trustees, and key employees

Report all receivables due from officers, directors, trustees, and key employees, and all secured and unsecured loans to such persons, on line 50 and in an attached schedule discussed below. Report interest from such receivables on line 11. For a definition of "key employee," see the instructions in Part V.

**When receivables should be reported separately.** In the required schedule, report each receivable separately even if more than one loan was made to the same person or the same terms apply to all loans. Report salary advances, and other advances for the personal use and benefit of the recipient, and receivables subject to special terms, or arising from nontypical transactions, as separate loans for each officer, director, trustee, and key employee.

**When receivables should be reported as a single total.** In the required schedule, report receivables that are subject to the same terms and conditions (including credit limits and rate of interest) as receivables due from the general public (occurring in the normal course of the organization's operations) as a single total for all the officers, directors, trustees, and key employees. Report travel advances for official business of the organization as a single total.

**Schedule format.** For each outstanding loan, or other receivable that must be reported separately, the attached schedule should show the following information (preferably in columnar form):

- Borrower's name and title,
- Original amount,
- Balance due,
- Date of note,
- Maturity date,
- Repayment terms,
- Interest rate,
- Security provided by the borrower,
- Purpose of the loan, and
- Description and fair market value of the consideration furnished by the lender (e.g., cash—\$1,000; or 100 shares of XYZ, Inc., common stock—\$9,000).

The above detail is not required for receivables or travel advances that may be reported as a single total. However, report and identify those totals separately on the attachment.

## Line 51—Other notes and loans receivable

Enter the combined total of notes receivable and net loans receivable. For notes and loans that represent program-related investments (defined in the line 2 instructions), report the interest income on line 2. For all other notes and loans receivable included on line 51, report the income on line 11.

**Notes receivable.** Enter the amount of all notes receivable not listed on line 50 and not acquired as investments. Attach a schedule similar to that called for in the instructions for line 50. The schedule should also identify the relationship of the borrower to any officer, director, trustee, or key employee of the organization.

Notes receivable from loans by a credit union to its members and scholarship loans by a section 501(c)(3) organization do not have to be itemized. However, identify these loans as such on a schedule and indicate the total amount of such loans that are outstanding.

For a note receivable from another organization exempt under the same paragraph of section 501(c) as the filing

organization, list only the name of the borrower and the balance due. For example, a section 501(c)(3) organization would have to provide the full details of a loan to a section 501(c)(4) organization but would have to provide only the name of the borrower and the balance due on a note from a loan to another section 501(c)(3) organization.

**Loans receivable.** Enter the gross amount of loans receivable, less the allowance for doubtful accounts, from the normal activities of the filing organization such as loans by a credit union to its members or scholarship loans by a section 501(c)(3) organization. A schedule of these loans is not required.

Report loans to officers, directors, trustees, and key employees on line 50. Report loans to other employees on line 58.

#### **Line 52—Inventories for sale or use**

Enter the amount of materials, goods, and supplies purchased, manufactured by the organization, or donated and held for future sale or use.

#### **Line 53—Prepaid expenses and deferred charges**

Enter the amount of short-term and long-term prepayments of expenses attributable to one or more future accounting periods. Examples include prepayments of rent, insurance, and pension costs, and expenses incurred for a solicitation campaign of a future accounting period.

#### **Line 54—Investments—securities**

Enter the book value, which may be market value, of securities held as investments. Check the appropriate box to indicate whether the securities are reported at cost or fair market value. When valuing securities at fair market value, use commonly accepted valuation methods. (See Regulations section 20.2031-2.) Attach a schedule that lists the securities held at the end of the year. Indicate whether the securities are listed at cost (including the value recorded at the time of receipt in the case of donated securities) or end-of-year market value. Debt securities of the U.S., state, and municipal governments, corporate stocks and bonds, and other publicly traded securities (defined in the instructions for line 8) do not have to be listed individually, except for stock holdings that represent 5% or more of the outstanding shares of stock of the same class. However, show separate totals for each type of security (U.S. Government obligations, corporate stocks, etc.). Do not include amounts reported on line 46. Report dividends and interest from these securities on line 5.

#### **Line 55—Investments—land, buildings, and equipment**

Enter the book value (cost or other basis less accumulated depreciation) of all land, buildings, and equipment held for investment purposes, such as rental properties. Attach a schedule listing these fixed assets held as investments at the end of the year. Show for each item or category listed, the cost or other basis, accumulated depreciation, and book value. Report the income from these assets on line 6a.

#### **Line 56—Investments—other**

Enter the amount of all other investment holdings not reported on line 54 or 55. Attach a schedule listing and describing each of these investments held at the end of the year. Show the book value for each and indicate whether the investment is listed at cost or end-of-year market value. Report the income from these assets on line 7. Do not include program-related investments. See the instructions for line 58.

#### **Line 57—Land, buildings, and equipment**

Enter the book value (cost or other basis less accumulated depreciation) of all land, buildings, and equipment owned by the organization and not held for investment. This includes any property, plant, and equipment owned and used by the organization in conducting its exempt activities. Attach a schedule listing these fixed assets held at the end of the year and showing, for each item or category listed, the cost or other basis, accumulated depreciation, and book value.

#### **Line 58—Other assets**

List and show the book value of each category of assets not reportable on lines 45 through 57. Attach a separate schedule if more space is needed.

One type of asset reportable on line 58 is program-related investments. These are investments made primarily to accomplish an exempt purpose of the filing organization rather than to produce income.

#### **Line 59—Total assets**

Enter the total of lines 45 through 58. The amounts on line 59 must equal the amounts on line 74 for both the beginning and end of the year.

#### **Line 60—Accounts payable and accrued expenses**

Enter the total of accounts payable to suppliers and others and accrued expenses, such as salaries payable, accrued payroll taxes, and interest payable.

#### **Line 61—Grants payable**

Enter the unpaid portion of grants and awards that the organization has made a commitment to pay other organizations or individuals, whether or not the commitments have been communicated to the grantees.

#### **Line 62—Deferred revenue**

Include revenue that the organization has received but not yet earned as of the balance sheet date under its method of accounting.

#### **Line 63—Loans from officers, directors, trustees, and key employees**

Enter the unpaid balance of loans received from officers, directors, trustees, and key employees. See the instructions for Part V for the definition of "key employee." For loans outstanding at the end of the year, attach a schedule that shows, for each loan, the name and title of the lender and the information specified in items 2 through 10 of the instructions for line 50.

#### **Line 64a—Tax-exempt bond liabilities**

Enter the amount of tax-exempt bonds (or other obligations) issued by the organization on behalf of a state or local governmental unit, or by a state or local governmental unit on behalf of the organization, and for which the organization has a direct or indirect liability. Tax-exempt bonds include state or local bonds and any obligations, including direct borrowing from a lender, or certificates of participation, the interest on which is excluded from the income of the recipient for Federal income tax purposes under section 103.

For all such bonds and obligations outstanding at any time during the year, attach a schedule showing for each separate issue: (a) the purpose of the issue; (b) the amount of the issue outstanding; and (c) the unexpended bond proceeds, if any. Also indicate whether any portion of any bond-financed facility was used by a third party (other than a governmental unit or section 501(c)(3)

organization), and, if so, state the percentage of space used by the third party.

If the tax-exempt bond or obligation is in the form of a mortgage, include the amount of the mortgage on line 64a, and not on line 64b. For such mortgage, include in the above listing, the maturity date of the debt, repayment terms, interest rate, and any security provided by the organization.

Line 64a does not, however, refer to situations where the organization only has a contingent liability, as it would if it were a guarantor of tax-exempt bonds issued by a related entity. Contingent liabilities, such as those that arise from guarantees, should be included as an entry in the separately attached schedule required for line 64a.

#### **Line 64b—Mortgages and other notes payable**

Enter the amount of mortgages and other notes payable at the beginning and end of the year. Attach a schedule showing, as of the end of the year, the total amount of all mortgages payable and, for each nonmortgage note payable, the name of the lender and the other information specified in items 2 through 10 of the instructions for line 50. The schedule should also identify the relationship of the lender to any officer, director, trustee, or key employee of the organization.

#### **Line 65—Other liabilities**

List and show the amount of each liability not reportable on lines 60 through 65. Attach a separate schedule if more space is needed.

#### **Lines 67 through 69—Net assets**

The Financial Accounting Standards Board issued *Financial Statements of Not-for-Profit Organizations* (SFAS 117). SFAS 117 provides standards for external financial statements certified by an independent accountant for certain types of nonprofit organizations. SFAS 117 does not apply to credit unions, voluntary employees' beneficiary associations, supplemental unemployment benefit trusts, section 501(c)(12) cooperatives, and other member benefit or mutual benefit organizations.

While some states may require reporting in accordance with SFAS 117, IRS does not (see General Instruction E). However, a Form 990, or Form 990-EZ, return prepared in accordance with SFAS 117 will be acceptable to IRS.

**Organizations that follow SFAS 117.** If the organization follows SFAS 117, check the box above line 67. Classify and report net assets in three groups—unrestricted, temporarily restricted, and permanently restricted—based on the existence or absence of donor-imposed restrictions and the nature of those restrictions. Show the sum of the three classes of net assets on line 73. On line 74, add the amounts on lines 66 and 73 to show total liabilities and net assets. This figure should be the same as the figure for Total assets on line 59.

#### **Line 67—Unrestricted**

Enter the balances per books of the unrestricted class of net assets. Unrestricted net assets are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. All funds without donor-imposed restrictions must be classified as unrestricted, regardless of the existence of any board designations or appropriations.

#### **Line 68—Temporarily restricted**

Enter the balance per books for the temporarily restricted class of net assets. Donors' temporary restrictions may require that resources be used in a later period or after a specified date (time restrictions), or that

resources be used for a specified purpose (purpose restrictions), or both.

### Line 69—Permanently restricted

Enter the total of the balances for the permanently restricted class of net assets. Permanently restricted net assets are (a) assets, such as land or works of art, donated with stipulations that they be used for a specified purpose, be preserved, and not be sold or (b) assets donated with stipulations that they be invested to provide a permanent source of income. The latter result from gifts and bequests that create permanent endowment funds.

**Organizations that do not follow SFAS 117.** If the organization does not follow SFAS 117, check the box above line 70 and report account balances on lines 70 through 72. Report net assets or fund balances on line 73. Complete line 74 to report the sum of the total liabilities and net assets.

Some states that accept Form 990, or Form 990-EZ, as their basic reporting form may require a separate statement of changes in net assets/fund balances. See General Instruction E.

### Line 70—Capital stock, trust principal, or current funds

For corporations, enter the balance per books for capital stock accounts. Show par or stated value (or for stock with no par or stated value, total amount received upon issuance) of all classes of stock issued and, as yet, uncanceled. For trusts, enter the amount in the trust principal or corpus account. For organizations continuing to use the fund method of accounting, enter the fund balances for the organization's current restricted and unrestricted funds.

### Line 71—Paid-in or capital surplus, or land, bldg., and equipment fund

Enter the balance per books for all paid-in capital in excess of par or stated value for all stock issued and uncanceled. If stockholders or others gave donations that the organization records as paid-in capital, include them here. Report any current-year donations you included on line 71 in Part I, line 1. Enter the fund balance for the land, building, and equipment fund on this line.

### Line 72—Retained earnings or accumulated income, endowment, or other funds

For corporations, enter the balance in the retained earnings, or similar account, minus the cost of any corporate treasury stock. For trusts, enter the balance per books in the accumulated income or similar account. For those organizations using fund accounting, enter the total of the fund balances for the permanent and term endowment funds as well as balances of any other funds not reported on lines 70 and 71.

### Line 73—Total net assets or fund balances

For organizations that follow SFAS 117, enter the total of lines 67 through 69. For all other organizations, enter the total of lines 70 through 72. Enter the beginning-of-the-year figure on line 73, column (A), in Part I, line 19. The end-of-the-year figure on line 73, column (B) must agree with the figure on line 21 of Part I.

### Line 74—Total liabilities and net assets/fund balances

Enter the total of lines 66 and 73. This amount must equal the amount for total assets reported on line 59 for both the beginning and end of the year.

## Parts IV-A and IV-B—Reconciliation Statements

Use these reconciliation statements to reconcile the differences between the revenue and expenses shown on the organization's audited financial statements prepared in accordance with SFAS 117 and the revenue and expenses shown on the organization's Form 990.

If the organization did not receive an audited financial statement for 2002 (or the fiscal year for which it is completing this Form 990) and prepared the return in accordance with SFAS 117, it does not need to complete Parts IV-A or IV-B and should instead enter "N/A" on line a of each Part.

These two Parts do not have to be completed on group returns.

On line d(1) of Parts IV-A and IV-B, include only those investment expenses netted against investment income in the revenue portion of the organization's audited financial statements. Do not include program-related investment expenses or other expenses reported as program service expenses in the audited statement of activities.

## Part V—List of Officers, Directors, Trustees, and Key Employees

List each person who was an officer, director, trustee, or key employee (defined below) of the organization or disregarded entity described in Regulations sections 301.7701-1 through 301.7701-3 at any time during the year even if they did not receive any compensation from the organization.

Enter a zero in columns (B), (C), (D), or (E) if no hours were entered in column (B) and no compensation, contributions, expenses and other allowances were paid during the reporting year, or deferred for payment to a future accounting period.

Aid in the processing of your return by grouping together, preferably at the end of your list, those who received no compensation. Be careful not to repeat names.

Give the preferred address at which officers, etc., want the Internal Revenue Service to contact them.

Use an attachment if there are more persons to list in Part V.

Show all forms of cash and noncash compensation received by each listed officer, etc., whether paid currently or deferred.

If you pay any other person, such as a management services company, for the services provided by any of your officers, directors, trustees, or key employees, report the compensation and other items in Part V as if you had paid the officers, etc., directly.

A failure to fully complete Part V can subject both the organization and the individuals responsible for such failure to penalties for filing an incomplete return. See General Instruction K. In particular, entering the phrase on Part V, "Information available upon request," or a similar phrase, is not acceptable.

The organization may also provide an attachment to explain the entire 2002 compensation package for any person listed in Part V.

Each person listed in Part V should report the listed compensation on his or her income tax return unless the Code specifically excludes any of the payments from income tax. See Pub. 525 for details.

A "key employee" is any person having responsibilities or powers similar to those of

officers, directors, or trustees. The term includes the chief management and administrative officials of an organization (such as an executive director or chancellor) but does not include the heads of separate departments or smaller units within an organization.

A chief financial officer and the officer in charge of administration or program operations are both key employees if they have the authority to control the organization's activities, its finances, or both. The "heads of separate departments" reference applies to persons such as the head of the radiology department or coronary care unit of a hospital or the head of the chemistry, history, or English department at a college. These persons are managers within their specific areas but not for the organization as a whole and, therefore, are not key employees.

### Column (B)

In column (B), a numerical estimate of the average hours per week devoted to the position is required for a complete answer. Statements such as "as needed," "as required," or "40+" are unacceptable.

### Column (C)

For each person listed, report salary, fees, bonuses, and severance payments paid. Include current-year payments of amounts reported or reportable as deferred compensation in any prior year.

### Column (D)

Include in this column all forms of deferred compensation and future severance payments (whether or not funded; whether or not vested; and whether or not the deferred compensation plan is a qualified plan under section 401(a)). Include also payments to welfare benefit plans on behalf of the officers, etc. Such plans provide benefits such as medical, dental, life insurance, severance pay, disability, etc. Reasonable estimates may be used if precise cost figures are not readily available.

Unless the amounts were reported in column (C), report, as deferred compensation in column (D), salaries and other compensation earned during the period covered by the return, but not yet paid by the date the organization files its return.

### Column (E)

Enter both taxable and nontaxable fringe benefits (other than *de minimis* fringe benefits described in section 132(e)). Include expense allowances or reimbursements that the recipients must report as income on their separate income tax returns. Examples include amounts for which the recipient did not account to the organization or allowances that were more than the payee spent on serving the organization. Include payments made under indemnification arrangements, the value of the personal use of housing, automobiles, or other assets owned or leased by the organization (or provided for the organization's use without charge), as well as any other taxable and nontaxable fringe benefits. See Pub. 525 for more information.

### Line 75—Compensation from related organizations

Answer "Yes" to this question if any officer, director, trustee, or key employee received total compensation of more than \$100,000 from your organization and all related organizations (as defined below) and more than \$10,000 of this compensation was provided by the related organization. For this purpose, "compensation" includes any amount that would be reportable in column (C), (D), or

(E) of Part V if provided by the filing organization.

Report any compensation paid by a related organization for only that period where a control or other relationship existed between the organizations. Report compensation paid by a related organization in the same period (calendar or fiscal year) as compensation paid by the Form 990 filer.

Organizations answering "Yes" must attach a schedule that lists, for each officer, director, trustee, or key employee receiving such compensation, the name and EIN of each related organization that provided the compensation and the amount each provided. Use the same format as required by columns (C) through (E) of Part V.

Providing information on compensation received from related organizations does not violate the disclosure provisions of section 7216(a). See also section 6033(a)(1).

A "related organization" is any entity (whether tax-exempt or taxable) that the filing organization directly or indirectly owns or controls, or that directly or indirectly owns or controls the filing organization. For example, if Organization A owns 90% of B, and B owns 80% of C, then A would directly own 90% of B and indirectly own 72% (90% of 80%) of C.

"Owns" means holding (directly or indirectly) 50% or more of the voting membership rights, voting stock, profits interest, or beneficial interest.

"Control" means that:

1. Fifty percent (50%) or more of the filing organization's officers, directors, trustees, or key employees are also officers, directors, trustees, or key employees of the second organization being tested for control;
2. The filing organization appoints 50% or more of the officers, directors, trustees, or key employees of the second organization; or
3. Fifty percent (50%) or more of the filing organization's officers, directors, trustees, or key employees are appointed by the second organization.

Control exists if the 50% test is met by any one group of persons even if collectively the 50% test is not met.

Whether or not any elements of ownership or control are present, a related organization also includes:

- A supporting organization operated in connection with the filing organization where one of the purposes of the supporting organization is to benefit or further the purposes of the filing organization; and
- A supported organization operated in connection with the filing organization where one of the purposes of the filing organization is to benefit or further the purposes of the supported organization.

For example, a hospital auxiliary that raises funds for Hospital Y or coordinates the efforts of that hospital's volunteer staff would be a supporting organization of Hospital Y and, thus, a related organization, even if the hospital does not own or control the auxiliary. Hospital Y, in turn, would be a supported organization of the auxiliary. In any case where the \$10,000 and \$100,000 minimums were met, the hospital must report (on an attachment to its return) the compensation paid by the auxiliary to the officer, director, trustee, or key employee of the hospital. The same reporting requirement would apply to compensation paid by Hospital Y to an officer, etc., of the auxiliary.

## Part VI—Other Information

- Section 501(c)(3) organizations and section 4947(a)(1) nonexempt charitable trusts must

also complete and attach a Schedule A (Form 990 or 990-EZ) to their Form 990 or Form 990-EZ. See General Instruction D for information on Schedule A (Form 990 or 990-EZ).

- Answer "Yes," "No," or "N/A" to each question.

### Line 76—Change in activities

Attach a statement to explain any significant changes in the kind of activities the organization conducts to further its exempt purpose. Include new or modified activities not listed as current or planned in the organization's application for recognition of exemption, or not yet reported to the IRS by a letter to its Director EO Examination or by an attachment to the organization's return for any earlier year. Also include any major program activities that are being discontinued.

### Line 77—Changes in organizing or governing documents

Attach a conformed copy of any changes to the articles of incorporation, or association, constitution, trust instrument, or other organizing document, or to the bylaws or other governing document.

A "conformed" copy is one that agrees with the original document and all amendments to it. If the copies are not signed, they must be accompanied by a written declaration signed by an officer authorized to sign for the organization, certifying that they are complete and accurate copies of the original documents.

Photocopies of articles of incorporation showing the certification of an appropriate state official do not have to be accompanied by such a declaration. See Rev. Proc. 68-14, 1968-1 C.B. 768, for details. When a number of changes are made, attach a copy of the entire revised organizing instrument or governing document.

However, if your exempt organization changes its legal structure, such as from a trust to a corporation, you must file a new exemption application to establish that the new legal entity qualifies for exemption.

### Line 78—Unrelated business income

Political organizations described in section 527 are not required to answer this question.

Check "Yes" on line 78a if the organization's total gross income from all of its unrelated trades and businesses is \$1,000 or more for the year. Gross income is the amount of gross receipts less the cost of goods sold. See Pub. 598 for a description of unrelated business income and the Form 990-T filing requirements for section 501(c), (e), (f), (k), and (n) organizations having such income.

**Form 990-T is not a substitute for Form 990.** Report on Form 990, or Form 990-EZ, items of income and expense that are also reported on Form 990-T when the organization is required to file both forms.

**Note:** *All tax-exempt organizations must pay estimated taxes with respect to their unrelated business income if they expect their tax liability to be \$500 or more. Use Form 990-W to compute this tax.*

### Line 79—Liquidation, dissolution, termination, or substantial contraction

For a complete liquidation of a corporation or termination of a trust, check the "Final return" box in the heading on page 1 of the form. If there was a liquidation, dissolution, termination, or substantial contraction, attach a statement explaining what took place.

On the attached statement, show whether the assets have been distributed and the date of distribution. Also attach a certified copy of any resolution, or plan of liquidation or

termination, etc., with all amendments or supplements not already filed. In addition, attach a schedule listing the names and addresses of all persons who received the assets distributed in liquidation or termination, the kinds of assets distributed to each one, and each asset's fair market value.

A "substantial contraction" is a partial liquidation or other major disposition of assets except transfers for full consideration or distributions from current income.

A "major disposition of assets" means any disposition for the tax year that is:

1. At least 25% of the fair market value of the organization's net assets at the beginning of the tax year; or
2. One of a series of related dispositions begun in earlier years that add up to at least 25% of the net assets the organization had at the beginning of the tax year when the first disposition in the series was made. Whether a major disposition of assets took place through a series of related dispositions depends on the facts in each case.

See Regulations section 1.6043-3 for special rules and exceptions.

### Line 80—Relation to other organizations

Answer "Yes" if most (more than 50%) of the organization's governing body, officers, directors, trustees, or membership are also officers, directors, trustees, or members of any other organization.

Disregard any coincidental overlap of membership with another organization; that is, when membership in one organization is not a condition of membership in another organization. For example, assume that a majority of the members of a section 501(c)(4) civic organization also belong to a local chamber of commerce described in section 501(c)(6). The civic organization should answer "No" on line 80 if it does not require its members to belong to the chamber of commerce.

Also disregard affiliation with any statewide or nationwide organization. Thus, the civic organization in the above example would still answer "No" on line 80 even if it belonged to a state or national federation of similar organizations. A local labor union whose members are also members of a national labor organization would answer "No" on line 80.

### Line 81—Expenditures for political purposes

**Political organizations described in section 527 are not required to answer this question.**

A political expenditure is one intended to influence the selection, nomination, election, or appointment of anyone to a Federal, state, or local public office, or office in a political organization, or the election of Presidential or Vice Presidential electors. It does not matter whether the attempt succeeds.

An expenditure includes a payment, distribution, loan, advance, deposit, or gift of money, or anything of value. It also includes a contract, promise, or agreement to make an expenditure, whether or not legally enforceable.

**All section 501(c) organizations.** An exempt organization that is not a political organization must file Form 1120-POL if it is treated as having political organization taxable income under section 527(f)(1).

If a section 501(c) organization establishes and maintains a section 527(f)(3) separate segregated fund, it is the fund's responsibility to file its own Form 1120-POL if the fund meets

the Form 1120-POL filing requirements. Do not include the segregated fund's receipts, expenditures, and balance sheet items on the Form 990, or Form 990-EZ, of the section 501(c) organization that establishes and maintains the fund. When answering questions 81a and 81b on its Form 990, this section 501(c) organization should disregard the political expenses and Form 1120-POL filing requirement of the segregated fund.

However, when a section 501(c) organization transfers its own funds, to a separate segregated section 527(f)(3) fund for use as political expenses, the 501(c) organization must report the transferred funds as its own political expenses on its Form 990 or Form 990-EZ.

**Section 501(c)(3) organizations.** A section 501(c)(3) organization will lose its tax-exempt status if it engages in political activity.

A section 501(c)(3) organization must pay a section 4955 excise tax for any amount paid or incurred on behalf of, or in opposition to, any candidate for public office. The organization must pay an additional excise tax if it fails to correct the expenditure timely.

A manager of a section 501(c)(3) organization who knowingly agrees to a political expenditure must pay a section 4955 excise tax, unless the agreement is not willful and there is reasonable cause. A manager who does not agree to a correction of the political expenditure may have to pay an additional excise tax.

When a section 501(c)(3) organization promotes a candidate for public office (or is used or controlled by a candidate or prospective candidate), amounts paid or incurred for the following purposes are political expenditures:

- Remuneration to such individual (a candidate or prospective candidate) for speeches or other services;
- Travel expenses of such individual;
- Expenses of conducting polls, surveys, or other studies, or preparing papers or other material for use by such individual;
- Expenses of advertising, publicity, and fundraising for such individual; and
- Any other expense that has the primary effect of promoting public recognition or otherwise primarily accruing to the benefit of such individual.

An organization is effectively controlled by a candidate or prospective candidate only if such individual has a continuing, substantial involvement in the day-to-day operations or management of the organization.

A determination of whether the primary purpose of an organization is promoting the candidacy or prospective candidacy of an individual for public office is made on the basis of all the facts and circumstances. See section 4955 and Regulations section 53.4955.

Use Form 4720 to figure and report the excise taxes.

**Line 82—Donated services or facilities** Because Form 990, or Form 990-EZ, is open to public inspection, you may want the return to show contributions the organization received in the form of donated services or the use of materials, equipment, or facilities at less than

fair rental value. If so, and if the organization's records either show the amount and value of such items or give a clearly objective basis for an estimate, the organization may choose to enter this optional information on line 82b. The IRS does not require any organization to keep such records. However, **do not** include the value of such items in Part I or II, or in the expense column in Part III. You may indicate the value of donated services or use of materials, equipment, or facilities in Part III in the narrative description of program services rendered. See the instructions for Part III.

### Line 83—Public inspection requirements

Answer "Yes" only if the organization complied with its public inspection obligations described in General Instruction M.

### Line 83b—Disclosure requirements for quid pro quo contributions

See General Instruction L.

### Line 84a—Solicitations of contributions

All organizations that qualify under section 170(c) to receive contributions that are deductible as charitable contributions for Federal income tax purposes, enter "N/A." See General Instruction L.

### Line 85—Section 501(c)(4), (5), or (6) organizations

#### Reporting membership dues, lobbying, and political expenses under section 6033(e).

Only certain organizations that are tax-exempt under:

- Section 501(c)(4) (social welfare organizations),
- Section 501(c)(5) (agricultural and horticultural organizations), or
- Section 501(c)(6) (business leagues)

are subject to **(a)** the section 6033(e) notice and reporting requirements, and **(b)** a potential proxy tax. These organizations must report their total lobbying expenses, political expenses, and membership dues, or similar amounts, on line 85 of Form 990.

**Section 6033(e) notice and reporting requirements and proxy tax.** Section 6033(e) requires certain section 501(c)(4), (5), and (6) organizations to tell their members what portion of their membership dues were allocable to the political or lobbying activities of the organization. If an organization does not give its members this information, then the organization is subject to a proxy tax. The tax is reported on Form 990-T.

However, if the organization meets **Exception 1 or 2**, it is excluded from the notice, reporting, and proxy tax requirements of section 6033(e). See also Rev. Proc. 98-19, 1998-1 C.B. 547.

#### Exception 1. Section 6033(e)(3) exception for organizations whose dues are nondeductible. (Check "Yes" for line 85a.)

1. All organizations exempt from tax under section 501(a), other than section 501(c)(4), (5), and (6) organizations.
2. Local associations of employees' and veterans' organizations described in section

501(c)(4), but not section 501(c)(4) social welfare organizations.

3. Labor unions and other labor organizations described in section 501(c)(5), but not section 501(c)(5) agricultural and horticultural organizations.

4. Section 501(c)(4), (5), and (6) organizations that receive more than 90% of their dues from:

- a. Section 501(c)(3) organizations,
- b. State or local governments,
- c. Entities whose income is exempt from tax under section 115, or
- d. Organizations described in 1 through 3, above.

5. Section 501(c)(4) and (5) organizations that receive more than 90% of their annual dues from:

- a. Persons,
- b. Families, or
- c. Entities who each paid annual dues of \$83 or less in 2002 (adjusted annually for inflation). See Rev. Proc. 2001-59, 2001-52 I.R.B. 623 (2001-2 C.B. 623).

6. Any organization that receives a private letter ruling from the IRS stating that the organization satisfies the section 6033(e)(3) exception.

7. Any organization that keeps records to substantiate that 90% or more of its members cannot deduct their dues (or similar amounts) as business expenses whether or not any part of their dues are used for lobbying purposes.

8. Any organization that is not a membership organization.

**Note:** *Special rules treat affiliated social welfare organizations, agricultural and horticultural organizations, and business leagues as parts of a single organization for purposes of meeting the nondeductible dues exception. See Rev. Proc. 98-19.*

**Exception 2. Section 6033(e)(1) \$2,000 in-house lobbying exception.** (Check "Yes" for line 85b.) An organization satisfies the \$2,000 in-house lobbying exception if it:

1. Did not receive a waiver for proxy tax owed for the prior year.
2. Did not make any political or foreign lobbying expenditures during the 2002 reporting year,
3. Made lobbying expenses during the 2002 reporting year consisting only of in-house direct lobbying expenses totaling \$2,000 or less, but excluding:
  - a. Any allocable overhead expenses, and
  - b. All direct lobbying expenses of any local council regarding legislation of direct interest to the organization or its members.

**Dues notices.** An organization that checked "No" for both lines 85a and 85b, and is thus responsible for reporting on line 85c through 85h, must send dues notices to its members at the time of assessment or payment of dues, unless the organization chooses to pay the proxy tax instead of informing its members of the nondeductible portion of its dues. These dues notices must reasonably estimate the dues allocable to the nondeductible lobbying and political expenditures reported on line 85d.

| IF . . .  | THEN . . .  |
|---|---|
| The organization's lobbying and political expenses are more than its membership dues for the year,  | The organization must: <ul style="list-style-type: none"> <li>(a) Allocate all membership dues to its lobbying and political activities, and</li> <li>(b) Carry forward any excess lobbying and political expenses to the next tax year.</li> </ul> |
| The organization: <ul style="list-style-type: none"> <li>(a) Had only <i>de minimis</i> in-house expenses (\$2,000 or less) and no other nondeductible lobbying or political expenses; or</li> <li>(b) Paid a proxy tax, instead of notifying its members on the allocation of dues to lobbying and political expenses*; or</li> <li>(c) Established that substantially all of its membership dues, etc., are not deductible by members,</li> </ul> | The organization need not disclose to its membership the allocation of dues, etc., to its lobbying and political activities.  |

\*(such as political campaign or grassroots lobbying expenses)

Members of the organization cannot take a trade or business expense deduction on their tax returns for the portion of their dues, etc., allocable to the organization's lobbying and political activities.

#### Proxy tax.

| IF . . .   | THEN . . .   |
|--|--|
| The organization's actual lobbying and political expenses are more than it estimated in its dues notices,  | The organization is liable for a proxy tax on the excess and reports it on Form 990-T.       |
| The organization: <ul style="list-style-type: none"> <li>(a) Elects to pay the proxy tax, and</li> <li>(b) Chooses not to give its members a notice allocating dues to lobbying and political activities,</li> </ul>                             | All the members' dues remain eligible for a section 162 trade or business expense deduction. |
| The organization: <ul style="list-style-type: none"> <li>(a) Makes a reasonable estimate of dues allocable to nondeductible lobbying and political activities, and</li> <li>(b) Agrees to adjust its estimate in the following year*,</li> </ul> | The IRS may permit a waiver of the proxy tax.  |

\*A facts and circumstances test determines whether or not a reasonable estimate was made in good faith.

**Allocation of costs to lobbying activities and influencing legislation.** An organization that is subject to the lobbying disclosure rules of section 6033(e) must use a reasonable allocation method to determine its total costs of its direct lobbying activities; that is, costs to influence:

- Legislation, and

- The actions of a covered executive branch official through direct communication (e.g., President, Vice President, or cabinet-level officials, and their immediate deputies) (sections 162(e)(1)(A) and (D)).

Reasonable methods of allocating costs to direct lobbying activities include, but are not limited to:

- The ratio method,
- The gross-up and alternative gross-up methods, and
- A method applying the principles of section 263A.

See Regulations sections 1.162-28 and 1.162-29 and the special rules and definitions for these allocation methods given below.

An organization that is subject to the lobbying disclosure rules of section 6033(e) must also determine its total costs of:

- *De minimis* in-house lobbying,
- Grassroots lobbying, and
- Political activities.

There are no special rules related to determining these costs.

**All methods.** For all the allocation methods, include labor hours and costs of personnel whose activities involve significant judgment with respect to lobbying activities (lobbying personnel).

#### Special rules and definitions.

##### Ratio and gross-up methods.

1. May use even if volunteers conduct activities.
2. May disregard labor hours and costs of clerical or support personnel (other than lobbying personnel) under the ratio method.

##### Alternative gross-up method.

- Disregard labor hours and
- Costs of clerical or support personnel (other than lobbying personnel).

**Third-party costs** are those paid to:

- Outside parties for conducting lobbying activities,
- Dues paid to another membership organization that were declared to be nondeductible lobbying expenses, and
- Travel and entertainment costs for lobbying activities.

**Direct contact lobbying** is a:

- Meeting,
- Telephone conversation,
- Letter, or
- Similar means of communication that is with a:
  1. Legislator (other than a local legislator) or
  2. Covered executive branch official and that otherwise qualifies as a lobbying activity.

Treat all hours spent by a person in connection with direct contact lobbying as labor hours allocable to lobbying activities.

Do not treat the hours spent by a person who engages in research and other background activities related to direct contact lobbying, but who makes no direct contact with a legislator, or covered executive branch official, as direct contact lobbying.

**De minimis rule.** If less than 5% of a person's time is spent on lobbying activities, and there is no direct contact lobbying, an organization may treat that person's time spent on lobbying activities as zero.

**Influencing legislation** means:

- Any attempt to influence legislation through a lobbying communication; and
- All activities, such as research and coordination for the purpose of making or

supporting a lobbying communication, even if not yet made.

A **lobbying communication** is any communication with any member or employee of a legislative body, or any other government official participating in the formulation of the legislation that:

- Refers to specific legislation and reflects a view on that legislation or
- Provides support for views in a prior lobbying communication.

**Purpose for engaging in an activity** is based on all the facts and circumstances. If an organization's lobbying communication was for a lobbying and a nonlobbying purpose, the organization must make a reasonable allocation of costs to influencing legislation.

##### Correction of prior year lobbying costs.

If in a prior year, an organization treated costs incurred for a future lobbying communication as a lobbying cost to influence legislation, but after the organization filed a timely return, it appears the lobbying communication will not be made under any foreseeable circumstance, the organization may apply these costs to reduce its current year's lobbying costs, but not below zero. The organization may carry forward any amount of the costs not used to reduce its current year's lobbying costs to subsequent years.

**Example: Ratio method.** X Organization incurred:

1. 6,000 labor hours for all activities
2. 3,000 labor hours for lobbying activities (three employees)
3. \$300,000 for operational costs
4. No third-party lobbying costs

X Organization allocated its lobbying costs as follows:

| Lobbying labor hrs. |   |                           |   |  |
|---------------------|---|---------------------------|---|--|
| 3,000               | × | \$300,000                 | + | 0                                      |
| 6,000               |   |                           |   | = \$150,000                            |
| Total labor hrs.    |   | Total costs of operations |   | Allocable third-party costs            |
|                     |   |                           |   | Costs allocable to lobbying activities |

##### Examples: Gross-up method and Alternative gross-up method.

A and B are employees of Y Organization.

1. A's activities involve significant judgment with respect to lobbying activities.
2. A's basic lobbying labor costs (excluding employee benefits) are \$50,000.
3. B performs clerical and support activities for A.
4. B's labor costs (excluding employee benefits) in support of A's activities are \$15,000.
5. Allocable third-party costs are \$100,000.

If Y Organization uses the gross-up method to allocate its lobbying costs, Y multiplies 175% times its basic labor costs (excluding employee benefits) for all of the lobbying of its personnel and adds its allocable third-party lobbying costs as follows:

|                                     |   |                             |   |  |
|-------------------------------------|---|-----------------------------|---|--|
| 175% × \$65,000                     | + | \$100,000                   | = | \$213,750                              |
| Basic lobbying labor costs of A + B |   | Allocable third-party costs |   | Costs allocable to lobbying activities |

If Y Organization uses the alternative gross-up method to allocate its lobbying costs, Y multiplies 225% times its basic labor costs (excluding employee benefits) for all of the lobbying hours of its "lobbying personnel" and adds its third-party lobbying costs as follows:

|                                 |   |                             |   |  |
|---------------------------------|---|-----------------------------|---|--|
| 225% × \$50,000                 | + | \$100,000                   | = | \$212,500                              |
| Basic lobbying labor costs of A |   | Allocable third-party costs |   | Costs allocable to lobbying activities |

**Section 263A cost allocation method.** The examples that demonstrate this method are found in Regulations section 1.162-28(f).

**Line 85a—Section 6033(e)(3) exception for nondeductible dues**

If your organization meets any of the criteria of **Exception 1** in the line 85 instructions, answer "Yes" to question 85a. By doing so, you are declaring that substantially all of the organization's membership dues were nondeductible. Skip lines 85b through 85h.

**Line 85b—In-house lobbying expenditures**

An organization is exempt from the notice, reporting, and proxy tax liability rules of section 6033(e) if it meets **Exception 2**, the \$2,000 in-house lobbying exception. Both exceptions are discussed in the instructions for line 85.

An organization should answer "Yes" to question 85b if it met all of the requirements of **Exception 2**. Skip lines 85c through 85h.

If the organization's in-house direct lobbying expenditures during the 2002 reporting year were \$2,000 or less, but the organization also paid or incurred other lobbying or political expenditures during the 2002 reporting year, or received a waiver for proxy tax owed for the prior year, it should answer "No" to question 85b and complete lines 85c through 85h. However, the \$2,000 or less of in-house direct lobbying expenditures should not be included in the total on line 85d.

**Definitions.**

**Grassroots lobbying** refers to attempts to influence any segment of the general public regarding legislative matters or referendums.

**Direct lobbying includes attempting to influence:**

- Legislation through communication with legislators and other government officials, and
- The official actions or positions of covered executive branch officials through direct communication.

**Direct lobbying does not include attempting to influence:**

- Any local council on legislation of direct interest to the organization or its members, and
- The general public regarding legislative matters (grassroots lobbying).

**Other lobbying includes:**

- Grassroots lobbying,
- Foreign lobbying,
- Third-party lobbying, and
- Dues paid to another organization that were used to lobby.

**In-house expenditures include:**

- Salaries, and
- Other expenses of the organization's officials and staff (including amounts paid or incurred for the planning of legislative activities).

**In-house expenditures do not include:**

- Any payments to other taxpayers engaged in lobbying or political activities as a trade or business.
- Any dues paid to another organization that are allocable to lobbying or political activities.

**Line 85c—Dues, assessments, and similar amounts received**

Enter the total dues, assessments, and similar amounts allocable to the 2002 reporting year.

The term "dues" means the amount the organization requires a member to pay in order to be recognized as a member.

Payments that are similar to dues include:

1. Members' voluntary payments,
2. Assessments to cover basic operating costs, and
3. Special assessments to conduct lobbying and political activities.

**Line 85d—Lobbying and political expenditures**

Include on line 85d the total amount of expenses paid or incurred during the 2002 reporting year in connection with:

1. Influencing legislation;
2. Participating or intervening in any political campaign on behalf of (or in opposition to) any candidate for any public office;
3. Attempting to influence any segment of the general public with respect to elections, legislative matters, or referendums; or
4. Communicating directly with a covered executive branch official in an attempt to influence the official actions or positions of such official.

Also include on line 85d:

1. Excess lobbying and political expenditures carried over from the preceding tax year.
2. An amount equal to the taxable lobbying and political expenditures reported on line 85f for the preceding tax year, if the organization received a waiver of the proxy tax imposed on that amount.

**Do not include:**

1. Any direct lobbying of any local council or similar governing body with respect to legislation of direct interest to the organization or its members.
2. In-house direct lobbying expenditures, if the total of such expenditures is \$2,000 or less (excluding allocable overhead).
3. Political expenditures for which the section 527 tax has been paid (on Form 1120-POL).

- Reduce the current year's lobbying expenditures, but not below zero, by costs previously allocated in a prior year to lobbying activities that were cancelled after a return reporting those costs was filed.
- Carry forward any amounts not used as a reduction to subsequent years.

**Line 85e—Dues declared nondeductible in notices to members**

Enter the total amount of dues, etc., allocable to the 2002 reporting year that members were notified were nondeductible under section 162(e).

**Example.**

- Membership dues: \$100,000 for the 2002 reporting year
- Organization's timely notices to members—25% of membership dues nondeductible
- Line 85e entry—\$25,000

**Line 85f—Taxable lobbying and political expenditures**

The taxable amount reportable on line 85f is the amount of dues, etc.:

1. Allocable to the 2002 reporting year and
2. Attributable to lobbying and political expenditures that the organization did not timely notify its members were nondeductible.

If the amount on line 85c (dues, etc.) is **greater** than the amount on line 85d (lobbying & political expenses), then:

Line 85d (lobbying & political expenses)  
 Less: Line 85e (dues shown in notices)  
 Equals: Line 85f (taxable lobbying & political expenses)

If the amount on line 85c (dues, etc.) is **less** than the amount on line 85d (lobbying & political expenses), then:

Line 85c (dues, etc.)

Less: Line 85e (dues shown in notices)  
 Equals: Line 85f (taxable lobbying & political expenses), and  
 Line 85d (lobbying & political expenses)  
 Less: Line 85c (dues, etc.)  
 Equals: The excess amount to be carried over to the following tax year and reported on line 85d (lobbying & political expenses), or its equivalent, on the year 2003 Form 990.

See **Examples** given below.

**Lines 85g and 85h—Proxy tax and waivers**

An organization must pay the section 6033(e) proxy tax on the amount reported on line 85f unless it has the option to check "Yes" on line 85h.

If the amount on line 85f is zero, or less than zero, enter on:

|          |     |
|----------|-----|
| Line 85g | N/A |
| Line 85h | N/A |

If the organization sent dues notices to its members at the time of assessment or payment of dues that reasonably estimated the dues allocable to the nondeductible lobbying and political expenditures reported on line 85d, enter on:

|          |     |
|----------|-----|
| Line 85g | No  |
| Line 85h | Yes |

Include the amount from the 2002 Form 990, line 85f, on the year 2003 Form 990, line 85d, or its equivalent.

If the organization did not send these dues notices, enter on:

|          |     |
|----------|-----|
| Line 85g | Yes |
| Line 85h | No  |

Report the proxy tax on Form 990-T.

**Examples. Organizations A and B:**

1. Reported on the calendar year basis.
2. Incurred only grassroots lobbying expenses (did not qualify for the under \$2,000 in-house lobbying exception (*de minimis* rule)).
3. Allocated dues to the tax year in which received.

**For Organization A—**Dues, assessments, and similar amounts received in 2002 were **greater** than its lobbying expenses for 2002.

**Workpapers (for 2002 Form 990)—Organization A**

|   |  |       |       |
|---|--|-------|-------|
| 1. Total dues, assessments, etc., received                                    |  | \$800 |       |
| 2. Lobbying expenses paid or incurred   |  |       | \$600 |
| 3. Less: Total nondeductible amount of dues notices                           |  | 100   | 100   |
| 4. (Subtract line 3 from both lines 1 and 2)                                  |  | \$700 | \$500 |
| 5. Taxable amount of lobbying expenses (smaller of the two amounts on line 4) |  |       | \$500 |

**Note:** The amounts on lines 1, 2, 3, and 5 of the workpapers were entered on lines 85c through 85f of the 2002 Form 990.

Because dues, etc., received were **greater** than lobbying expenses, there is no carryover of excess lobbying expenses to line 85d of the year 2003 Form 990.

See the instructions for lines 85g and 85h for the treatment of the \$500.

**For Organization B**—Dues, assessments, and similar amounts received in 2002 were **less** than its lobbying expenses for 2002.

**Workpapers (for 2002 Form 990)—  
Organization B**

|   |       |       |
|---|-------|-------|
| 1. Total dues, assessments, etc., received . . . . .                                    | \$400 |       |
| 2. Lobbying expenses paid or incurred . . . . .   |       | \$600 |
| 3. Less: Total nondeductible amount of dues notices . . . . .                           | 100   | 100   |
| 4. (Subtract line 3 from both lines 1 and 2) . . . . .                                  | \$300 | \$500 |
| 5. Taxable amount of lobbying expenses (smaller of the two amounts on line 4) . . . . . | \$300 |       |

**Note:** The amounts on lines 1, 2, 3, and 5 of the workpapers were entered on lines 85c through 85f of the 2002 Form 990.

Because dues, etc., received were **less** than lobbying expenses, excess lobbying expenses of \$200 must be carried forward to line 85d of the year 2003 Form 990 (excess of \$600 of lobbying expenses over \$400 dues, etc., received). The \$200 will be included along with the other lobbying and political expenses paid or incurred in the 2003 reporting year and reportable on line 85d (or the equivalent line) of the year 2003 Form 990.

See the instructions for lines 85g and 85h for the treatment of the \$300.

**Underreporting of lobbying expenses.** An organization is subject to the proxy tax for the 2002 reporting year for underreported lobbying and political expenses only to the extent that these expenses (if actually reported) would have resulted in a proxy tax liability for that year. A waiver of proxy tax for the tax year only applies to reported expenditures.

An organization that underreports its lobbying and political expenses is also subject to the section 6652(c) daily penalty for filing an incomplete or inaccurate return.

**Line 86—Section 501(c)(7) organizations**

**Gross receipts test.** A section 501(c)(7) organization may receive up to 35% of its gross receipts, including investment income, from sources outside its membership and remain tax-exempt. Part of the 35% (up to 15% of gross receipts) may be from public use of a social club's facilities.

Gross receipts are the club's income from its usual activities and include:

- Charges,
- Admissions,
- Membership fees,
- Dues,
- Assessments, and
- Investment income (such as dividends, rents, and similar receipts), and normal recurring capital gains on investments.

Gross receipts **do not include:**

- Capital contributions (see Regulations section 1.118-1),
- Initiation fees, or
- Unusual amounts of income (such as the sale of the clubhouse).

**Note:** College fraternities or sororities or other organizations that charge membership initiation fees, but not annual dues, **do include** initiation fees in their gross receipts.

If the 35% and 15% limits do not affect the club's exempt status, include the income shown on line 86b on the club's Form 990-T.

Investment income earned by a section 501(c)(7) organization is not tax-exempt income unless it is set aside for:

- Religious,
- Charitable,
- Scientific,
- Literary,
- Educational purposes, or
- Prevention of cruelty to children or animals.

If the combined amount of an organization's gross investment income and other unrelated business income exceeds \$1,000, it must report the investment income and other unrelated business income on Form 990-T.

**Nondiscrimination policy.** A section 501(c)(7) organization is not exempt from income tax if any written policy statement, including the governing instrument and bylaws, allows discrimination on the basis of race, color, or religion.

However, section 501(i) allows social clubs to retain their exemption under section 501(c)(7) even though their membership is limited (in writing) to members of a particular religion, if the social club:

1. Is an auxiliary of a fraternal beneficiary society exempt under section 501(c)(8), and
2. Limits its membership to the members of a particular religion; or the membership limitation is:
  - a. A good-faith attempt to further the teachings or principles of that religion, and
  - b. Not intended to exclude individuals of a particular race or color.

**Line 87—Section 501(c)(12) organizations**

One of the requirements that an organization must meet to qualify under section 501(c)(12) is that at least 85% of its gross income consists of amounts collected from members for the sole purpose of meeting losses and expenses. For purposes of section 501(c)(12), the term "gross income" means gross receipts without reduction for any cost of goods sold.

For a mutual or cooperative electric or telephone company, "gross income" does not include amounts received or accrued as "qualified pole rentals."

For a mutual or cooperative telephone company, "gross income" also does not include amounts received or accrued either from another telephone company for completing long distance calls to or from or between the telephone company's members, or from the sale of display listings in a directory furnished to the telephone company's members.

**Line 88**

Answer "Yes" to this question if at any time during the year, the organization owned a 50% or greater interest in a taxable corporation or partnership or an entity disregarded as separate from the organization under Regulations sections 301.7701-2 and 301.7701-3. If an organization answers "Yes" on line 88, complete Part IX, Information Regarding Taxable Subsidiaries and Disregarded Entities.

**Line 89a—Section 501(c)(3) organizations: Disclosure of excise taxes imposed under section 4911, 4912, or 4955**

Section 501(c)(3) organizations must disclose any excise tax imposed during the year under section 4911 (excess lobbying expenditures), 4912 (disqualifying lobbying expenditures), or, unless abated, 4955 (political expenditures). See sections 4962 and 6033(b).

**Line 89b—Section 501(c)(3) and 501(c)(4) organizations: Disclosure of section 4958 excess benefit transactions and excise taxes**

Sections 6033(b) and 6033(f) require section 501(c)(3) and (4) organizations to report the amount of taxes imposed under section 4958 (excess benefit transactions) involving the organization, unless abated, as well as any other information the Secretary may require concerning those transactions. See General Instruction P for a discussion of excess benefit transactions.

Attach a statement describing any excess benefit transaction, the disqualified person or persons involved, and whether or not the excess benefit transaction was corrected.

**Line 89c—Taxes imposed on organization managers or disqualified persons**

For line 89c, enter the amount of taxes imposed on organization managers or disqualified persons under sections 4912, 4955, and 4958, unless abated.

**Line 89d—Taxes reimbursed by the organization**

For line 89d, enter the amount of tax on line 89c that was reimbursed by the organization. Any reimbursement of the excise tax liability of a disqualified person or organization manager will be treated as an excess benefit unless (1) the organization treats the reimbursement as compensation during the year the reimbursement is made, and (2) the total compensation to that person, including the reimbursement, is reasonable.

**Line 90a—List of states**

List each state with which the organization is filing a copy of this return in full or partial satisfaction of state filing requirements.

**Line 90b—Number of employees**

Enter the number of employees on your payroll during the pay period including March 12, 2002, as shown on your Form 941 or Form 943 (January-March calendar quarter return only). Do not include household employees, persons who received no pay during the pay period, pensioners, or members of the Armed Forces.

**Line 92—Section 4947(a)(1) nonexempt charitable trusts**

Section 4947(a)(1) nonexempt charitable trusts that file Form 990 instead of Form 1041 must complete this line. The trust should include exempt-interest dividends received from a mutual fund or other regulated investment company as well as tax-exempt interest received directly.

**Part VII—Analysis of Income-Producing Activities**

Political organizations described in section 527 are not required to complete this Part.

An organization is exempt from income taxes only if its primary purpose is to engage in the type of activity for which it claims exemption.

An exempt organization is subject to a tax on unrelated business taxable income if such income is from a trade or business that is regularly carried on by the organization and is not substantially related to the organization's performance of its exempt purpose or function. Generally, a tax-exempt organization with gross income of \$1,000 or more for the year from an unrelated trade or business must file Form 990-T and pay any tax due.

In Part VII, show whether revenue, also reportable on lines 2 through 11 of Part I, was

received from activities related to the organization's purpose or activities unrelated to its exempt purpose. Enter gross amounts unless indicated otherwise. Show also any revenue excludable from the definition of unrelated business taxable income.

The sum of amounts entered in columns (B), (D), and (E) for lines 93 through 103 of Part VII should match amounts entered for correlating lines 2 through 11 of Part I. Use the following table to verify the relationship of Part VII with Part I.

**Note:** Contributions that are reportable on lines 1a through 1d of Part I are **not** reportable in Part VII.

| Amounts in Part VII on Line | Correspond to Amounts in Part I on Line |
|-----------------------------|---|
| 93(a) through (g)           | 2                                       |
| 94                          | 3                                       |
| 95                          | 4                                       |
| 96                          | 5                                       |
| 97 and 98                   | 6c                                      |
| 99                          | 7                                       |
| 100                         | 8d                                      |
| 101                         | 9c                                      |
| 102                         | 10c                                     |
| 103(a) through (e)          | 11                                      |
| 105 (plus line 1d, Part I)  | 12                                      |

## Completing Part VII

### Column (A)

In column (A), identify any unrelated business taxable income reportable in column (B) by selecting a business code from the Codes for Unrelated Business Activity in the 2002 Instructions for Form 990-T.

**Note:** The codes for unrelated business activity have been revised. Use the codes shown in the 2002 Instructions for Form 990-T.

### Column (B)

In column (B), enter any revenue received from activities unrelated to the exempt purpose of the organization. See the Instructions for Form 990-T and Pub. 598 for a discussion of what is unrelated business taxable income. If you enter an amount in column (B), then you must enter a business code in column (A).

### Column (C)

In column (C), enter an exclusion code from the Exclusion Codes list on the last page of the Specific Instructions for Form 990 to identify any revenue excludable from unrelated business taxable income. If more than one exclusion code applies to a particular revenue item, use the lowest numbered exclusion code that applies. If nontaxable revenues from several sources are reportable on the same line in column (D), use the exclusion code that applies to the largest revenue source. If the list of exclusion codes does not include an item of revenue that is excludable from unrelated business taxable income, enter that item in column (E) and see the instructions for column (E).

### Column (D)

For column (D), identify any revenue received that is excludable from unrelated business taxable income. If you enter an amount in column (D), you must enter an exclusion code in column (C).

### Column (E)

For column (E), report any revenue from activities related to the organization's exempt purpose; (i.e., income received from activities that form the basis of the organization's exemption from taxation). Also report here any revenue that is excludable from gross income other than by Code section 512, 513, or 514,

such as interest on state and local bonds that is excluded from tax by section 103. Explain in Part VIII how any amount reported in column (E) related to the accomplishment of the organization's exempt purposes.

### Lines 93(a) through (g)—Program service revenue

List the organization's revenue-producing program service activities on these lines. Program service activities are primarily those that form the basis of an organization's exemption from tax. Enter, in the appropriate columns, gross revenue from each program service activity and the business and exclusion codes that identify this revenue. See the explanation of program service revenue in the instructions for Part I, line 2.

### Line 93(f)—Medicare and Medicaid payments

Enter the revenue received from Medicare and Medicaid payments. See the **Examples** of program service revenue in the instructions for Part I, line 2.

### Line 93(g)—Fees and contracts from government agencies

In the appropriate columns, enter gross revenue earned from fees and contract payments by government agencies for a service, facility, or product that benefited the government agency primarily, either economically or physically. Do not include government grants that enabled your organization to benefit the public directly and primarily. See Part I, line 1c instructions for the distinction between government grants that represent contributions and payments from government agencies for a service, product, or facility that primarily benefited the government agencies.

Report on line 2 of Part I (program service revenue) the sum of the entries in columns (B), (D), and (E) for lines 93(a) through (g).

### Lines 94 through 96—Dues, assessments, interest, and dividends

In the appropriate columns, report the revenue received for these line items. General instructions for lines 94 through 96 are given in the instructions for Part I, lines 3 through 5.

### Lines 97 and 98—Rental income (loss)

Report net rental income from investment property on these lines. Also report here rental income from unaffiliated exempt organizations. Report rental income, however, from an exempt function (program service) on line 93. Refer to the instructions for Part I, line 6. A more detailed discussion of rental income is given in the Instructions for Form 990-T and Pub. 598.

Rents from real property are usually excluded in computing unrelated business taxable income, as are incidental amounts (10% or less) of rental income from personal property leased with real property (mixed lease). In a mixed lease where the rent attributable to personal property is more than 50% of the total rent, neither rent from real or personal property is excluded from unrelated business taxable income. The exclusion also does not apply when the real or personal property rentals depend wholly or partly on the income or profits from leased property, other than an amount based on a fixed percentage or percentage of gross receipts or sales.

The rental exclusion from unrelated business taxable income does not apply to debt-financed real property. In general, debt-financed property is any property that the organization finances by debt and holds to produce income instead of for exempt purposes. An exempt organization's income

from debt-financed property is treated as unrelated business taxable income and is subject to tax in the same proportion as the property remains financed by the debt. If substantially all (85% or more) of any property is used for an organization's exempt purposes, the property is not treated as debt-financed property. The rules for debt-financed property do not apply to rents from personal property.

### Lines 99 through 102

In the appropriate columns, report the revenue received for these line items. General instructions for lines 99 through 102 are given in the instructions for Part I, lines 7 through 10.

### Lines 103(a) through (e)—Other revenue

List any "Other revenue" activity on these lines. These activities are discussed in the instructions for line 11, Part I. In the appropriate columns, enter the revenue received from these activities. Select applicable business and exclusion codes. Report as "Other revenue," on line 11 of Part I, the total revenue entered in columns (B), (D), and (E) for lines 103(a) through (e).

### Line 105—Total

Enter the total revenue reported on line 104 for columns (B), (D), and (E). The amount reported on line 105, plus the amount on line 1d of Part I, should equal the amount entered for "Total revenue" on line 12 of Part I.

## Part VIII—Relationship of Activities to the Accomplishment of Exempt Purposes

To explain how an amount entered in Part VII, column (E), was related or exempt function income, show the line number of the amount in column (E) and give a brief description of how the activity reported in column (E) specifically contributed to the accomplishment of the organization's exempt purposes (other than by providing funds for such purposes). Activities that generate exempt-function income are activities that form the basis of the organization's exemption from tax.

Also give the line number and an explanation for any income entered in column (E) that is specifically excluded from gross income other than by Code sections 512, 513, or 514. If no amount is entered in column (E), do not complete Part VIII.

**Example.** M, an organization described in section 501(c)(3), operates a school for the performing arts. Admission is charged at student performances. M reported admission income in column (E) of Part VII and explained in Part VIII that performances before an audience were an essential part of the students' training and related to the exempt purpose of the organization.

Because M also reported interest from state bonds in column (E) of Part VII, M explained in Part VIII that such interest was excluded from gross income by Code section 103.

If you need additional space, see **Attachments** in General Instruction W.

## Part IX—Information Regarding Taxable Subsidiaries and Disregarded Entities

**Column (A).** Enter the name, address, and EIN of each taxable corporation or partnership and each disregarded entity in which the organization held a 50% or greater interest at any time during the year. If a disregarded entity does not have its own EIN, state that it uses the organization's EIN.

**Columns (D) and (E).** Enter the corporation's or partnership's total income and end-of-year total assets as reported on each entity's Federal tax return for the year ending within the year covered by the parent organization's Form 990. Since the financial information of a disregarded entity is reported on its parent organization's return, enter in Column (D) the amount on line 12, Total revenue, that is attributable to the disregarded entity. Enter in Column (E) the amount on line 59, Total assets, Column (B), that is attributable to the disregarded entity.

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### **Part X—Information Regarding Transfers Associated With Personal Benefit Contracts**

See General Instruction V which also discusses the reporting requirements for this Part.

If, in connection with any transfer of funds to a charitable organization, the organization directly or indirectly pays premiums on any

personal benefit contract, or there is an understanding or expectation that any person will directly or indirectly pay such premiums, the organization must report the premiums it paid and the premiums paid by others, but treated as paid by the organization, on Form 8870. The organization must report and pay an excise tax, equal to premiums paid, on Form 4720.

## Exclusion Codes

### General Exceptions

- 01— Income from an activity that is not regularly carried on (section 512(a)(1))
- 02— Income from an activity in which labor is a material income-producing factor and substantially all (at least 85%) of the work is performed with unpaid labor (section 513(a)(1))
- 03— Section 501(c)(3) organization—Income from an activity carried on primarily for the convenience of the organization's members, students, patients, visitors, officers, or employees (hospital parking lot or museum cafeteria, for example) (section 513(a)(2))
- 04— Section 501(c)(4) local association of employees organized before 5/27/69—Income from the sale of work-related clothes or equipment and items normally sold through vending machines; food dispensing facilities; or snack bars for the convenience of association members at their usual places of employment (section 513(a)(2))
- 05— Income from the sale of merchandise, substantially all of which (at least 85%) was donated to the organization (section 513(a)(3))

### Specific Exceptions

- 06— Section 501(c)(3), (4), or (5) organization conducting an agricultural or educational fair or exposition—Qualified public entertainment activity income (section 513(d)(2))
- 07— Section 501(c)(3), (4), (5), or (6) organization—Qualified convention and trade show activity income (section 513(d)(3))
- 08— Income from hospital services described in section 513(e)
- 09— Income from noncommercial bingo games that do not violate state or local law (section 513(f))
- 10— Income from games of chance conducted by an organization in North Dakota (section 311 of the Deficit Reduction Act of 1984, as amended)
- 11— Section 501(c)(12) organization—Qualified pole rental income (section 513(g))
- 12— Income from the distribution of low-cost articles in connection with the solicitation of charitable contributions (section 513(h))
- 13— Income from the exchange or rental of membership or donor list with an organization eligible to receive charitable contributions by a section 501(c)(3) organization; by a war veterans' organization; or an auxiliary unit or society of, or trust or foundation for, a war veterans' post or organization (section 513(h))

### Modifications and Exclusions

- 14— Dividends, interest, payments with respect to securities loans, annuities, income from notional principal contracts, loan commitment fees, and other substantially similar income from ordinary and routine investments excluded by section 512(b)(1)
- 15— Royalty income excluded by section 512(b)(2)
- 16— Real property rental income that does not depend on the income or profits derived by the person leasing the property and is excluded by section 512 (b)(3)

- 17— Rent from personal property leased with real property and incidental (10% or less) in relation to the combined income from the real and personal property (section 512(b)(3))
- 18— Gain (or loss, to the extent allowed) from the sale of investments and other non-inventory property and from certain property acquired from financial institutions that are in conservatorship or receivership (sections 512(b)(5) and (16)(A))
- 19— Income or loss from the lapse or termination of options to buy or sell securities, or real property, and from the forfeiture of good-faith deposits for the purchase, sale, or lease of investment real property (section 512(b)(5))
- 20— Income from research for the United States; its agencies or instrumentalities; or any state or political subdivision (section 512(b)(7))
- 21— Income from research conducted by a college, university, or hospital (section 512(b)(8))
- 22— Income from research conducted by an organization whose primary activity is conducting fundamental research, the results of which are freely available to the general public (section 512(b)(9))
- 23— Income from services provided under license issued by a Federal regulatory agency and conducted by a religious order or school operated by a religious order, but only if the trade or business has been carried on by the organization since before May 27, 1959 (section 512 (b)(15))

### Foreign Organizations

- 24— Foreign organizations only—Income from a trade or business NOT conducted in the United States and NOT derived from United States sources (patrons) (section 512(a)(2))

### Social Clubs and VEBAs

- 25— Section 501(c)(7), (9), or (17) organization—Non-exempt function income set aside for a charitable, etc., purpose specified in section 170(c)(4) (section 512(a)(3)(B)(i))
- 26— Section 501(c)(7), (9), or (17) organization—Proceeds from the sale of exempt function property that was or will be timely reinvested in similar property (section 512(a)(3)(D))
- 27— Section 501(c)(9), or (17) organization—Non-exempt function income set aside for the payment of life, sick, accident, or other benefits (section 512(a)(3)(B)(iii))

### Veterans' Organizations

- 28— Section 501(c)(19) organization—Payments for life, sick, accident, or health insurance for members or their dependents that are set aside for the payment of such insurance benefits or for a charitable, etc., purpose specified in section 170(c)(4) (section 512(a)(4))
- 29— Section 501(c)(19) organization—Income from an insurance set-aside (see code 28 above) that is set aside for payment of insurance benefits or for a charitable, etc., purpose specified in section 170(c)(4) (Regulations section 1.512(a)-4(b)(2))

### Debt-financed Income

- 30— Income exempt from debt-financed (section 514) provisions because at least 85% of the use of the property is for the organization's exempt purposes (**Note:** *This code is only for income from the 15% or less non-exempt purpose use.*) (section 514(b)(1)(A))
- 31— Gross income from mortgaged property used in research activities described in section 512(b)(7), (8), or (9) (section 514(b)(1)(C))
- 32— Gross income from mortgaged property used in any activity described in section 513(a)(1), (2), or (3) (section 514(b)(1)(D))
- 33— Income from mortgaged property (neighborhood land) acquired for exempt purpose use within 10 years (section 514(b)(3))
- 34— Income from mortgaged property acquired by bequest or devise (applies to income received within 10 years from the date of acquisition) (section 514(c)(2)(B))
- 35— Income from mortgaged property acquired by gift where the mortgage was placed on the property more than 5 years previously and the property was held by the donor for more than 5 years (applies to income received within 10 years from the date of gift) (section 514(c)(2)(B))
- 36— Income from property received in return for the obligation to pay an annuity described in section 514(c)(5)
- 37— Income from mortgaged property that provides housing to low and moderate income persons to the extent the mortgage is insured by the Federal Housing Administration (section 514(c)(6)) (**Note:** *In many cases, this would be exempt function income reportable in column (E). It would not be so in the case of a section 501(c)(5) or (6) organization, for example, that acquired the housing as an investment or as a charitable activity.*)
- 38— Income from mortgaged real property owned by: a school described in section 170(b)(1)(A)(ii); a section 509(a)(3) affiliated support organization of such a school; a section 501(c)(25) organization, or by a partnership in which any of the above organizations owns an interest if the requirements of section 514(c)(9)(B)(vi) are met (section 514(c)(9))

### Special Rules

- 39— Section 501(c)(5) organization—Farm income used to finance the operation and maintenance of a retirement home, hospital, or similar facility operated by the organization for its members on property adjacent to the farm land (section 1951(b)(8)(B) of Public Law 94-455)
- 40— Annual dues not exceeding \$120 (subject to inflation) paid to a section 501(c)(5) agricultural or horticultural organization (section 512(d))

### Trade or Business

- 41— Gross income from an unrelated activity that is regularly carried on but, in light of continuous losses sustained over a number of tax periods, cannot be regarded as being conducted with the motive to make a profit (not a trade or business)

## Specific Instructions for Form 990-EZ

**Note:** See also the General Instructions that apply to both Form 990 and Form 990-EZ.

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### Completing the Heading of Form 990-EZ

The instructions that follow are keyed to items in the heading for Form 990-EZ.

#### Item A—Accounting period

Use the 2002 Form 990-EZ to report on a calendar year accounting period beginning January 1, 2002, and ending December 31, 2002.

Use the 2002 Form 990-EZ to report on an accounting period other than a calendar year (either a fiscal year that began in 2002 or a short period (less than 12 months) that began in 2002). You must show the month and day in 2002 that your fiscal year began, or the short period began. You must also show the day, month, and year your fiscal year or short period ended. See General Instruction G.

#### Item B—Checkboxes

**Address change, name change, and initial return.** Check the appropriate box if the organization changed its address since it filed its previous return, or if this is the first time the organization is filing either a Form 990 or a Form 990-EZ.

If the tax-exempt organization has changed its name, attach the following documents:

| <b>IF the tax-exempt organization is . . .</b> | <b>THEN attach these documents. . .</b>  |
|--|--|
| A corporation                                  | An amendment to the articles of incorporation with proof of filing with the state of incorporation.  |
| A trust  | An amendment to the trust agreement signed by the trustee.   |
| An association                                 | An amendment to the articles of association, constitution, bylaws, or other organizing document, along with signatures of at least two officers/members. |

#### Final return and amended return.

Organizations should file final returns when they cease to be section 501(a) organizations or section 527 organizations; for example, when they cease operations and dissolve. See the instructions for line 36 that discuss liquidations, dissolutions, terminations, or substantial contractions.

If the return is an amended return, check the box. There are amended return requirements when filing with a state. See General Instructions E and J.

**Application pending.** If the organization's application for exemption is pending, check this box and complete the return.

#### Item C—Name and address

If we mailed the organization a Form 990 Package with a preaddressed mailing label, attach the label in the name and address space on the organization's return. Using the label helps us avoid errors in processing the return. If any information on the label is wrong, draw a line through that part and correct it.

If the organization operates under a name different from its legal name, give the legal name of the organization but identify its alternate name, after the legal name, by writing "aka" (also known as) and the alternate name of the organization. However, if the organization has changed its name, follow the instructions for **Name change in Item B—Checkboxes**.

Include the suite, room, or other unit number after the street address. If the Post Office does not deliver mail to the street address and the organization has a P.O. box, show the box number instead of the street address.

For foreign addresses, enter information in the following order: City, province or state, and the name of the country. Follow the foreign country's practice in placing the postal code in the address. Please **do not** abbreviate the country name.

If a change of address occurs after the return is filed, use Form 8822 to notify the IRS of the new address.

#### Item D—Employer identification number

The organization should have only one Federal employer identification number (EIN). If the organization has more than one EIN and has not been advised which to use, notify the Internal Revenue Service Center, Ogden, UT 84201-0027. State what numbers the organization has, the name and address to which each number was assigned, and the address of its principal office. The IRS will advise the organization which number to use.

**Note:** A section 501(c)(9) voluntary employees' beneficiary association must use its own EIN and not the EIN of its sponsor.

#### Item E—Telephone number

Enter a telephone number of the organization that members of the public and government regulators may use during normal business hours to obtain information about the organization's finances and activities. If the organization does not have a telephone number, enter the telephone number of an organization official who can provide such information.

#### Item F—Group exemption number

If the organization is covered by a group exemption letter, enter the four-digit group exemption number (GEN). Contact the central/parent organization if you are unsure of the GEN assigned.

#### Item G—Accounting method

Indicate the method of accounting used in preparing this return. See General Instruction G.

#### Item H—Schedule B (Form 990, 990-EZ, or 990-PF)

Whether or not the organization enters any amount on line 1 of Form 990-EZ, the organization must either check the box in item

H or attach Schedule B (Form 990, 990-EZ, or 990-PF). Failure to either check the box in item H or file Schedule B (Form 990, 990-EZ, or 990-PF) will result in a determination that the return is incomplete. See the instructions for Schedule B (Form 990, 990-EZ, or 990-PF), Schedule of Contributors, for more information.

**Note:** "Contributor" includes individuals, fiduciaries, partnerships, corporations, associations, trusts, and exempt organizations.

#### Guidelines for meeting the schedule of contributor requirements of Schedule B (Form 990, 990-EZ, or 990-PF)

**If . . .**  
 A section 501(c)(3) organization that met the 1/3 support test of the regulations under 509(a)(1)/170(b)(1)(A) did not receive a contribution of the greater of \$5,000 or 2% of the amount on line 1 of Form 990-EZ, from any one contributor.\*

#### Section 501(c)(3) org., meeting the 1/3 support test of 170(b)(1)(A)

**Then . . .**  
 The organization should check the box in item H to certify that it is not required to attach Schedule B (Form 990, 990-EZ, or 990-PF).

**Otherwise . . .**  
 Complete and attach Schedule B (Form 990, 990-EZ, or 990-PF).

**If . . .**  
 A section 501(c)(7), (8), or (10) organization did not receive any contribution or bequest for use *exclusively* for religious, charitable, scientific, literary, or educational purposes, or the prevention of cruelty to children or animals (and did not receive any noncharitable contributions of \$5,000 or more as described below under **general rule**),

#### Section 501(c)(7), (8), or (10) organization

**Then . . .**  
 The organization should check the box in item H to certify that it is not required to attach Schedule B (Form 990, 990-EZ, or 990-PF).

**Otherwise . . .**  
 Complete and attach Schedule B (Form 990, 990-EZ, or 990-PF).

**All other Form 990 or Form 990-EZ organizations (general rule)**  
**If . . .**  
 The organization did not show as part of line 1 of the Form 990-EZ, a contribution of \$5,000 or more from any one contributor.\*

### Then . . .

The organization should check the box in item H to certify that it is not required to attach Schedule B (Form 990, 990-EZ, or 990-PF).

### Otherwise . . .

Complete and attach Schedule B (Form 990, 990-EZ, or 990-PF).

\* Total a contributor's gifts of \$1,000 or more to determine if a contributor gave \$5,000 or more. Do not include smaller gifts.

## Item I—Web site

Show the organization's Web site address if a Web site is available. Otherwise, write "N/A" (not applicable). Consider adding your e-mail address to your Web site.

## Item J—Type of organization

If the organization is exempt under section 501(c), check the applicable box and insert, within the parentheses, the number that identifies the type of section 501(c) organization the filer is. See the chart in General Instruction C. The term "section 501(c)(3)" includes organizations exempt under sections 501(e), (f), (k), and (n). Check the box if the organization is a section 527 political organization. See General Instruction U.

If the organization is a section 4947(a)(1) nonexempt charitable trust, check the applicable box. Note also the discussion regarding Schedule A (Form 990 or 990-EZ) and Form 1041 in General Instruction D and the instructions for line 43.

## Item K—Gross receipts of \$25,000 or less

Check this box if the organization's gross receipts are normally not more than \$25,000. However, if the organization received a Form 990 Package, see General Instruction A and the discussion on gross receipts in General Instruction B.

## Item L—Calculating gross receipts

Only those organizations with gross receipts of less than \$100,000 and total assets of less than \$250,000 at the end of the year can use the Form 990-EZ. If the organization does not meet these requirements, it must file Form 990. The organization's gross receipts are the total amount it received from all sources during its annual accounting period, without subtracting any costs or expenses. See the gross receipts discussion in General Instruction B.

## Part I—Revenue, Expenses, and Changes in Net Assets or Fund Balances

All organizations filing Form 990-EZ with the IRS or any state must complete Part I. Some states that accept Form 990-EZ in place of their own forms may require additional information. See General Instruction E.

### Line 1. Contributions, Gifts, Grants, and Similar Amounts Received

#### A. What is included on line 1

- Report amounts received as voluntary contributions; (i.e., payments, or the part of any payment, for which the payer (donor) does not receive full retail value (fair market value) from the recipient (donee) organization).
- Enter the gross amounts of contributions, gifts, grants, and bequests that the

organization received from individuals, trusts, corporations, estates, affiliates, foundations, public charities, and other exempt organizations, or raised by an outside professional fundraiser.

- Report the value of noncash contributions at the time of the donation. **For example**, report the gross value of a donated car as of the time the car was received as a donation.
- Report all related expenses on lines 12 through 16. You must show on line 13 professional fundraising fees relating to the gross amounts of contributions collected in the charity's name by fundraisers.

Reporting for line 1, in accordance with SFAS 116, *Accounting for Contributions Received and Contributions Made*, is acceptable for Form 990-EZ, or Form 990, purposes, but not required by the IRS. However, see General Instruction E.

An organization that receives a grant to be paid in future years should, according to SFAS 116, report the grant's present value on line 1. Accruals of present value increments to the unpaid grant should also be reported on line 1 in future years.

**1. Contributions can arise from special events when an excess payment is received for items offered.** Fundraising activities relate to soliciting and receiving contributions. However, special fundraising activities such as dinners, door-to-door sales of merchandise, carnivals, and bingo games can produce **both** contributions and revenue. Report as a contribution, both on line 1 and on line 6a (within the parentheses), any amount received through such a "special event" that is greater than the fair market value (retail value) of the merchandise or services furnished by the organization to the contributor.

This situation usually occurs when organizations seek support from the public through solicitation programs that are in part special events or activities and are in part solicitations for contributions. The primary purpose of such solicitations is to receive contributions and not to sell the merchandise at its retail value even though this might produce a profit.

**Example.** An organization announces that anyone who contributes at least \$40 to the organization can choose to receive a book worth \$16 retail value. A person who gives \$40, and who chooses the book, is really purchasing the book for \$16 and also making a contribution of \$24. The contribution of \$24, which is the difference between the buyer's payment and the \$16 retail value of the book, would be reported on line 1 and again on line 6a (within the parentheses). The revenue received (\$16 retail value of the book) would be reported in the right-hand column on line 6a. Any expenses directly relating to the sale of the book would be reported on line 6b. Any fundraising expenses relating to the contribution of \$24 would be reported on lines 12 through 16.

If a contributor gives more than \$40, that person would be making a larger contribution, the difference between the book's retail value of \$16 and the amount actually given. See also the instructions for line 6 and Pub. 526.

**Note:** *At the time of any solicitation or payment, organizations that are eligible to receive tax-deductible contributions should advise patrons of the amount deductible for Federal tax purposes. See General Instruction L.*

**2. Contributions can arise from special events when items of only nominal value are given or offered.** If an organization offers goods or services of only nominal value through a special event, or distributes free,

unordered, low-cost items to patrons, report the **entire** amount received for such benefits as a contribution on line 1. Report all related expenses on lines 12 through 16.

See General Instruction L for a definition of benefits that have a nominal or insubstantial value.

**3. Section 501(c)(3) organizations.** These organizations must compute the amounts of revenue and contributions received from special events according to the above instructions when preparing their Support Schedule in Part IV-A of Schedule A (Form 990 or 990-EZ).

#### 4. Grants equivalent to contributions.

Grants made to encourage an organization receiving the grant to carry on programs or activities that further the grant recipient's exempt purposes are grants that are equivalent to contributions. Report them on line 1. The grantor may specify which of the recipient's activities the grant may be used for, such as an adoption program or a disaster relief project.

A grant is still equivalent to a contribution if the grant recipient performs a service, or produces a work product, that benefits the grantor incidentally (but see line 1, instruction B1, below).

**5. Contributions received through other fundraising organizations.** Contributions received indirectly from the public through solicitation campaigns conducted by federated fundraising agencies (such as United Way) are included on line 1.

**6. Contributions received from associated organizations.** Include on line 1 amounts contributed by other organizations closely associated with the reporting organization. This includes contributions received from a parent organization, subordinate, or another organization having the same parent.

**7. Contributions from a commercial co-venture.** Include amounts contributed by a commercial co-venture on line 1. These contributions are amounts received by the organization for allowing an outside organization (donor) or individual to use the recipient organization's name in a sales promotion campaign.

**8. Contributions or grants from governmental units.** A grant, or other payment from a governmental unit, is treated as a grant equivalent to a contribution if its primary purpose is to enable the recipient to provide a service to, or maintain a facility for, the direct benefit of the public rather than to serve the direct and immediate needs of the grantor (even if the public pays part of the expense of providing the service or facility). (See also line 1, instruction B1, below.)

**9. Contributions in the form of membership dues.** Include on line 1 membership dues and assessments to the extent they are contributions and not payments for benefits received. (See line 3, instruction C1.)

### B. What is not included on line 1

**1. Grants that are payments for services are not contributions.** A grant is a payment for services, and not a contribution, when the terms of the grant provide the grantor with a specific service, facility, or product, rather than providing a benefit to the general public or that part of the public served by the grant recipient. The recipient organization would report such a grant as income on line 2 (program service revenue).

**2. Donations of services.** Do not include the value of services donated to the organization, or items such as the free use of materials, equipment, or facilities, as contributions on line 1. However, for the optional reporting of such

amounts, see the instruction for donated services in Part III.

Any unreimbursed expenses of officers, employees, or volunteers do not belong on the Form 990 or Form 990-EZ. See the instructions for charitable contributions and employee business expenses in Pub. 526 and 463, respectively.

**3. Section 501(c)(9), (17), and (18) organizations.** These organizations provide participants with life, sickness, accident, welfare and unemployment insurance, pension(s), or similar benefits, or a combination of these benefits. When such an organization receives payments from participants, or their employers, to provide these benefits, report the payments on line 2 as program service revenue, rather than on line 1 as contributions.

**C. How to value noncash contributions**  
See General Instruction L and Schedule B (Form 990, 990-EZ, or 990-PF).

#### D. Schedule of contributors

Attach Schedule B (Form 990, 990-EZ, or 990-PF). See General Instruction L and the Specific Instructions for Completing the Heading of Form 990-EZ, Item H.

#### Line 2—Program Service Revenue Including Medicare, Medicaid Payments, and Government Fees and Contracts

Enter the total program service revenue (exempt function income). Program services are primarily those that form the basis of an organization's exemption from tax.

**1. Examples.** A clinic would include on line 2 all of its charges for medical services (whether to be paid directly by the patients or through Medicare, Medicaid, or other third-party reimbursement), laboratory fees, and related charges for services.

Program service revenue also includes tuition received by a school; revenue from admissions to a concert or other performing arts event or to a museum; royalties received as author of an educational publication distributed by a commercial publisher; payments received by a section 501(c)(9) organization from participants or employers of participants for health and welfare benefits coverage; and registration fees received in connection with a meeting or convention.

**2. Program-related investment income.** Program service revenue also includes income from program-related investments. These investments are made primarily to accomplish an exempt purpose of the investing organization rather than to produce income. Examples are scholarship loans and low-interest loans to charitable organizations, indigents, or victims of a disaster. Rental income received from an exempt function is another example of program-related investment income. See also the instructions for line 4.

**3. Unrelated trade or business activities.** Unrelated trade or business activities (not including any special events or activities) that generate fees for services may also be program service activities. A social club, for example, should report as program service revenue the fees it charges both members and nonmembers for the use of its tennis courts and golf course.

**4. Government fees and contracts.** Program service revenue includes income earned by the organization for providing a government agency with a service, facility, or product that benefited that government agency directly rather than benefiting the public as a whole.

See line 1, instruction A8, for reporting guidelines when payments are received from a government agency for providing a service, facility, or product for the primary benefit of the general public.

#### Line 3—Membership Dues and Assessments

Enter members' and affiliates' dues and assessments that are not contributions. See also General Instruction L.

##### A. What is included on line 3

**1. Dues and assessments received that compare reasonably with the benefits of membership.** When the organization receives dues and assessments that compare reasonably with membership benefits, report such dues and assessments on line 3.

**2. Organizations that generally match dues and benefits.** Organizations described in section 501(c)(5), (6), or (7) generally provide benefits with a reasonable relationship to dues, although benefits to members may be indirect.

##### B. Examples of membership benefits

These include subscriptions to publications; newsletters (other than one about the organization's activities only); free or reduced-rate admissions to events the organization sponsors; use of its facilities; and discounts on articles or services that both members and nonmembers can buy. In figuring the value of membership benefits, disregard such intangible benefits as the right to attend meetings, vote, or hold office in the organization, and the distinction of being a member of the organization.

##### C. What is not included on line 3

**1. Dues or assessments received that exceed the value of available membership benefits.** Whether or not membership benefits are used, dues received by an organization, to the extent they exceed the monetary value of the membership benefits available to the dues payer, are a contribution that should be reported on line 1.

**2. Dues received primarily for the organization's support.** If a member pays dues primarily to support the organization's activities, and not to obtain benefits of more than nominal monetary value, those dues are a contribution to the organization includible on line 1.

#### Line 4—Investment Income

##### A. What is included on line 4

**1. Interest on savings and temporary cash investments.** Include the amount of interest received from interest-bearing checking accounts, savings, and temporary cash investments, such as money market funds, commercial paper, certificates of deposit, and U.S. Treasury bills or other governmental obligations that mature in less than 1 year. So-called dividends or earnings received from mutual savings banks, money market funds, etc., are actually interest and should be included on this line.

**2. Dividends and interest from securities.** Include the amount of dividend and interest income from equity and debt securities (stocks and bonds) on this line. Include amounts received from payments on securities loans, as defined in section 512(a)(5).

**3. Gross rents.** Include gross rental income received during the year from investment property.

**4. Other investment income.** Include, for example, royalty income from mineral interests owned by the organization.

#### B. What is not included on line 4

**1. Capital gains dividends and unrealized gains and losses.** Do not include on this line any capital gains dividends. They are reported on line 5. Also do not include unrealized gains and losses on investments carried at market value. See the instructions for line 20.

**2. Exempt function revenue (program service).** Do not include on line 4 amounts that represent income from an exempt function (program service). Report these amounts on line 2 as program service revenue. Report expenses related to this income on lines 12 through 16.

An organization whose exempt purpose is to provide low-rental housing to persons with low income receives exempt function income from such rentals. An organization receives exempt function income if it rents or sublets rental space to a tenant whose activities are related to the reporting organization's exempt purpose. Exempt function income also arises when an organization rents to an **unaffiliated** exempt organization at less than fair rental value for the purpose of helping that unaffiliated organization carry out its exempt purpose. Report rental income received in these instances on line 2 and not on line 4.

Only for purposes of completing this return, treat income from renting property to **affiliated** exempt organizations as exempt function income and include such income on line 2 as program service revenue.

#### Lines 5a–c—Gains (or Losses) From Sale of Assets Other Than Inventory

##### A. What is included on line 5

Report on line 5a all sales of securities and sales of all other types of investments (such as real estate, royalty interests, or partnership interests) as well as sales of all other noninventory assets (such as program-related investments and fixed assets used by the organization in its related and unrelated activities).

Total the cost or other basis (less depreciation) and selling expenses and enter the result on line 5b. On line 5c, enter the net gain or loss. Report capital gains dividends, the organization's share of capital gains and losses from a partnership, and capital gains distributions from trusts on lines 5a and 5c. Indicate the source on the schedule described below.

For this return, you may use the more convenient way to figure the organization's gain or loss from sales of securities by comparing the sales price with the average-cost basis of the particular security sold. However, generally, the average-cost basis is not used to figure the gain or loss from sales of securities reportable on Form 990-T.

##### B. What is not included on line 5

Do not include on line 5 any unrealized gains or losses on securities that are carried in the books of account at market value. See the instructions for line 20.

##### C. Attached schedule

**1. Nonpublicly traded securities and noninventory items.** Attach a schedule to show the sale or exchange of nonpublicly traded securities and the sale or exchange of other assets that are not inventory items. The schedule should show security transactions separately from the sale of other assets. Show for these assets:

- Date acquired and how acquired,
- Date sold and to whom sold,
- Gross sales price,

- Cost, other basis, or if donated, value at time acquired (state which),
- Expense of sale and cost of improvements made after acquisition, and
- Depreciation since acquisition, if depreciable property.

**2. Publicly traded securities.** For sales of publicly traded securities through a broker, you may total the gross sales price, the cost or other basis, and the expenses of sale, and report lump-sum figures in place of providing the detailed reporting required in the above paragraph.

Publicly traded securities include common and preferred stocks, bonds (including governmental obligations), and mutual fund shares that are listed and regularly traded in an over-the-counter market or on an established exchange and for which market quotations are published or otherwise readily available.

### Lines 6a–c—Special Events and Activities

On the appropriate line, enter the gross revenue, expenses, and net income (or loss) from all special events and activities, such as dinners, dances, carnivals, raffles, bingo games, other gambling activities, and door-to-door sales of merchandise.

These activities only incidentally accomplish an exempt purpose. Their sole or primary purpose is to raise funds that are other than contributions to finance the organization's exempt activities.

This is done by offering goods or services that have more than a nominal value (compared to the price charged) for a payment that is more than the direct cost of those goods or services. See line 1 instructions A1 and A2 for a discussion on contributions reportable on line 1 and revenue reportable on line 6. See also General Instruction L.

Calling any required payment a "donation" or "contribution" on tickets, advertising, or solicitation materials does not change how these payments should be reported on Form 990-EZ.

The gross revenue from gambling activities and other special events must be reported in the right-hand column on line 6a without reduction for cash or noncash prizes, cost of goods sold, compensation, fees, or other expenses.

#### A. What is included on line 6

**1. Gross revenue/contributions.** When an organization receives payments for goods or services offered through a special event, enter:

1. As gross revenue, on line 6a (in the right-hand column), the retail value of the goods or services,

2. As a contribution, on both line 1 and line 6a (within the parentheses), any amount received that exceeds the retail value of the goods or services given.

**Example.** At a special event, an organization received \$100 in gross receipts for goods valued at \$40. The organization entered gross revenue of \$40 on line 6a and entered a contribution of \$60 on both line 1 and within the parentheses on line 6a. The contribution was the difference between the gross revenue of \$40 and the gross receipts of \$100.

**2. Raffles or lotteries.** Report as revenue, on line 6a, any amount received from raffles or lotteries that require payment of a specified minimum amount for each entry, unless the prizes awarded have only nominal value. See line 6, instruction B1 and B2, below.

**3. Direct expenses.** Report on line 6b only the direct expenses attributable to the goods or

services the buyer receives from a special event. If you include an expense on line 6b, do not report it again on line 7b. Report cost of goods related to the sale of inventory on line 7b. Fundraising expenses attributable to contributions reported on line 6a (within the parentheses), and also on line 1, are reportable on lines 12 through 16.

#### B. What is not included on line 6

**1. Sales or gifts of goods or services of only nominal value.** If the goods or services offered at the special event have only nominal value, include all of the receipts as contributions on line 1 and all of the related expenses on lines 12 through 16. See General Instruction L for a description of nominal or insubstantial benefits.

**2. Sweepstakes, raffles, and lotteries.** Report as a contribution, on line 1, the proceeds of solicitation campaigns in which the names of contributors and other respondents are entered in a drawing for prizes.

When a minimum payment is required for each raffle or lottery entry and prizes of only nominal value are awarded, report any amount received as a contribution. Report the related expenses on lines 12 through 16.

**3. Activities that generate only contributions are not special events.** An activity that generates only contributions, such as a solicitation campaign by mail, is not a special event. Any amount received should be included on line 1 as a contribution. Related expenses are reportable on lines 12 through 16.

#### C. Attached schedule

Attach a schedule listing the three largest special events conducted, as measured by gross receipts. Describe each of these events and indicate for each event: the gross receipts; the amount of contributions included in gross receipts (see line 6, instruction A1, above); the gross revenue (gross receipts less contributions); the direct expenses; and the net income (gross revenue less direct expenses).

Furnish the same information, in total figures, for all other special events held that are not among the largest three. Indicate the type and number of the events not listed individually (e.g., three dances and two raffles).

An example of this schedule of special events might appear in columnar form as follows:

| Special Events:       | All  |      |      |       |       |
|-----------------------|------|------|------|-------|-------|
|                       | (A)  | (B)  | (C)  | Other | Total |
| Gross Receipts        | \$xx | \$xx | \$xx | \$xx  | \$xx  |
| Less: Contributions   | xx   | xx   | xx   | xx    | xx    |
| Gross Revenue         | xx   | xx   | xx   | xx    | xx    |
| Less: Direct Expenses | xx   | xx   | xx   | xx    | xx    |
| Net Income or (loss)  | \$xx | \$xx | \$xx | \$xx  | \$xx  |

If you use this format, report the total for Contributions on line 1 of Form 990-EZ and on line 6a (within the parentheses). Report the totals for Gross Revenue, in the right-hand column, on line 6a; Direct Expenses on line 6b; and Net Income or (loss) on line 6c.

#### Lines 7a–c—Gross Sales of Inventory

**1. Sales of inventory.** Include on line 7a the gross sales (less returns and allowances) of inventory items, whether the sales activity is an exempt function or an unrelated trade or business. Include all inventory sales except sales of goods at special events, which are reportable on line 6.

**2. Cost of goods sold.** On line 7b, report the cost of goods sold related to sales of such inventory. The usual items included in cost of goods sold are direct and indirect labor,

materials and supplies consumed, freight-in, and a proportion of overhead expenses. Marketing and distribution expenses are not includable in cost of goods sold. Include those expenses on lines 12 through 16.

**3. Investments.** Do not include on line 7 sales of investments on which the organization expected to profit by appreciation and sale. Report sales of these investments on line 5.

#### Line 8—Other Revenue

Enter the total income from all sources not covered by lines 1 through 7. Examples of types of income includable on line 8 are interest on notes receivable not held as investments or as program-related investments (defined in the line 2 instructions); interest on loans to officers, directors, trustees, key employees, and other employees; and royalties that are not investment income or program service revenue.

#### Line 10—Grants and Similar Amounts Paid

Reporting for line 10, in accordance with SFAS 116, is acceptable for Form 990-EZ purposes, but not required by IRS. However, see General Instruction E.

An organization that makes a grant to be paid in future years should, according to SFAS 116, report the grant's present value on line 10. Accruals of present value increments to the unpaid grant should also be reported on line 10 in future years.

#### A. What is included on line 10

Enter the amount of actual grants and similar amounts paid to individuals and organizations selected by the filing organization. Include scholarship, fellowship, and research grants to individuals.

**1. Specific assistance to individuals.** Include on this line the amount of payments to, or for the benefit of, particular clients or patients, including assistance by others at the expense of the filing organization.

**2. Payments, voluntary awards, or grants to affiliates.** Include on line 10 certain types of payments to organizations "affiliated with" (closely related to) the reporting organization. These payments include predetermined quota support and dues payments by local organizations to their state or national organizations.

**Note:** If the organization uses Form 990-EZ for state reporting purposes, be sure to distinguish between payments to affiliates and awards and grants. See General Instruction E.

#### B. What is not included on line 10

**1. Administrative expenses.** Do not include on this line expenses made in selecting recipients or monitoring compliance with the terms of a grant or award. Enter those expenses on lines 12 through 16.

**2. Purchases of goods or services from affiliates.** Do not report the cost of goods or services purchased from affiliates on line 10. Report these as expenses on lines 12 through 16.

**3. Membership dues paid to another organization.** Report membership dues that the organization pays to another organization for general membership benefits, such as regular services, publications, and materials on line 16, as "Other expenses."

#### C. Attached schedule

Attach a schedule to explain the amounts reported on line 10. Show on this schedule:

- Each class of activity,
- The grantee's name and address,
- The amount given, and

• The relationship of the grantee (in the case of grants to individuals) if the relationship is by blood, marriage, adoption, or employment (including employees' children) to any person or corporation with an interest in the organization, such as a creator, donor, director, trustee, officer, etc.

Any grants reported on line 10 that were approved during the year, but not paid by the due date for filing Form 990-EZ (including extensions), must be identified and listed separately in the line 10 schedule.

Give the name and address of each affiliate that received any payment reported on line 10. Specify both the amount and purpose of these payments.

Classify activities on this schedule in more detail than by using such broad terms as charitable, educational, religious, or scientific. For example, identify payments to affiliates; payments for nursing services; fellowships; or payments for food, shelter, or medical services for indigents or disaster victims. For payments to indigent families, do not identify the individuals.

If an organization gives property other than cash and measures an award or grant by the property's fair market value, also show on this schedule:

- A description of the property,
- The book value of the property,
- How you determined the book value,
- How you determined the fair market value, and
- The date of the gift.

Any difference between a property's fair market value and book value should be recorded in the organization's books of account and on line 20.

Colleges, universities, and primary and secondary schools are not required to list the names of individuals who were provided scholarships or other financial assistance whether they are the recipients of Federal grant money or not. Instead, these organizations must (a) group each type of financial aid provided; (b) indicate the number of individuals who received the aid; and (c) specify the aggregate dollar amount.

#### **Line 11—Benefits Paid To or For Members**

For an organization that gives benefits to members or dependents (such as organizations exempt under section 501(c)(8), (9), or (17)), enter the amounts paid for: (a) death, sickness, hospitalization, or disability benefits; (b) unemployment compensation benefits; and (c) other benefits. Do not include, on this line, the cost of employment-related benefits the organization gives its officers and employees. Report them on line 12.

#### **Line 12—Salaries, Other Compensation, and Employee Benefits**

Enter the total salaries and wages paid to all employees and the fees paid to officers, directors, and trustees. Include the total of the employer's share of the contributions the organization paid to qualified and nonqualified pension plans and the employer's share of contributions to employee benefit programs (such as insurance, health, and welfare programs) that are not an incidental part of a pension plan. Complete the Form 5500 return if you are required to file it.

Also include in the total the amount of Federal, state, and local payroll taxes for the year that are imposed on the organization as an employer. This includes the employer's share of social security and Medicare taxes, Federal unemployment tax (FUTA), state unemployment compensation tax, and other state and local payroll taxes. Taxes withheld

from employees' salaries and paid over to the various governmental units (such as Federal and state income taxes and the employees' share of social security and Medicare taxes) are part of the employees' salaries included on line 12. Report expenses paid or incurred for employee events such as a picnic or holiday party on this line.

#### **Line 13—Professional Fees and Other Payments to Independent Contractors**

Enter the total amount of legal, accounting, auditing, other professional fees (such as fees for fundraising or investment services) and related expenses charged by outside firms and individuals who are not employees of the organization. Do not include any penalties, fines, or judgments imposed against the organization as a result of legal proceedings. Report and identify those expenses on line 16. Report fees paid to directors and trustees on line 12.

#### **Line 14—Occupancy, Rent, Utilities, and Maintenance**

Enter the total amount paid or incurred for the use of office space or other facilities, heat, light, power, and other utilities, outside janitorial services, mortgage interest, real estate taxes and property insurance attributable to rental property, and similar expenses. Do not subtract from rental expenses reported on line 14 any rental income received from renting or subletting rented space. See the instructions for lines 2 and 4 to determine whether such income is reportable as exempt function income or investment income. However, report on line 14 any rental expenses for rental income reported on lines 2 and 4. If the organization records depreciation on property it occupies, enter the total for the year.

For an explanation of acceptable methods for computing depreciation, see Pub. 946.

#### **Line 15—Printing, Publications, Postage, and Shipping**

Enter the printing and related costs of producing the reporting organization's own newsletters, leaflets, films, and other informational materials on this line. Include the costs of outside mailing services on this line. Also include the cost of any purchased publications as well as postage and shipping costs not reportable on lines 5b, 6b, or 7b. Do not include any expenses, such as salaries, for which a separate line is provided.

#### **Line 16—Other Expenses**

Include here such expenses as penalties, fines, and judgments; unrelated business income taxes; insurance and real estate taxes not attributable to rental property or reported as occupancy expenses; depreciation on investment property; travel and transportation costs; interest expense; and expenses for conferences, conventions, and meetings.

Some states that accept Form 990-EZ in satisfaction of their filing requirements may require that certain types of miscellaneous expenses be itemized. See General Instruction E.

#### **Line 18—Excess or (Deficit) for the Year**

Enter the difference between lines 9 and 17. If line 17 is more than line 9, enter the difference in parentheses.

#### **Line 19—Net Assets or Fund Balances at Beginning of Year**

Enter the amount from the prior year's balance sheet or from Form 5500 or an approved DOL form if General Instruction F applies.

#### **Line 20—Other Changes in Net Assets or Fund Balances**

Attach a statement explaining any changes in net assets or fund balances between the beginning and end of the year that are not accounted for by the amount on line 18. Amounts to report here include adjustments of earlier years' activity; unrealized gains and losses on investments carried at market value; and any difference between fair market value and book value of property given as an award or grant. See General Instruction G regarding the reporting of a section 481(a) adjustment to conform to SFAS 116.

### **Part II—Balance Sheets**

All organizations, except those that meet one of the exceptions in General Instruction F, must complete columns (A) and (B) of Part II of the return and may not submit a substitute balance sheet. Failure to complete Part II may result in penalties for filing an incomplete return. If there is no amount to report in column (A), Beginning of year, put a zero in that column. See General Instruction K.

Some states require more information. See General Instruction E for more information about completing a Form 990-EZ to be filed with any state or local government agency.

#### **Line 22—Cash, Savings, and Investments**

Include all interest and non-interest bearing accounts such as petty cash funds, checking accounts, savings accounts, money market funds, commercial paper, certificates of deposit, U.S. Treasury bills, and other government obligations. Also include the book value of securities held as investments, and all other investment holdings including land and buildings held for investment. Report the income from these investments on line 4.

#### **Line 23—Land and Buildings**

Enter the book value (cost or other basis less accumulated depreciation) of all land and buildings owned by the organization and not held for investment.

#### **Line 24—Other Assets**

Enter the total of other assets along with a description of those assets. Amounts to include here are (among others) receivable accounts, inventories, and prepaid expenses.

#### **Line 25—Total Assets**

Enter the amount of total assets. If the end-of-year total assets entered in column (B) are \$250,000 or more, Form 990 must be filed instead of Form 990-EZ.

#### **Line 27—Net Assets or Fund Balances**

Subtract line 26 (total liabilities) from line 25 (total assets) to determine net assets. Enter this net asset amount on line 27. The amount entered in column (B) should agree with the net asset or fund balance amount on line 21.

States that accept Form 990-EZ as their basic report form may require a separate statement of changes in net assets. See General Instruction E.

### **Part III—Statement of Program Service Accomplishments**

A program service is a major (usually ongoing) objective of an organization, such as adoptions, recreation for the elderly, rehabilitation, or publication of journals or newsletters.

| Step | Action  |
|------|---|
| 1    | State the organization's primary exempt purpose.  |
| 2    | <p>All organizations must describe their exempt purpose achievements for each of their three largest program services (as measured by total expenses incurred). If there were three or fewer of such activities, describe each program service activity.</p> <ul style="list-style-type: none"> <li>Describe program service accomplishments through measurements such as clients served, days of care, therapy sessions, or publications issued.</li> <li>Describe the activity's objective, for both this time period and the longer-term goal, if the output is intangible, such as in a research activity.</li> <li>Give reasonable estimates for any statistical information if exact figures are not readily available. Indicate that this information is estimated.</li> <li>Be clear, concise, and complete in your description. Avoid adding an attachment.</li> </ul> |
| 3    | <p>If part of the total expenses of any program service consists of grants reported on line 10, show the amount of the grants in the space provided and include the grants in the "Expenses" column.</p> <ul style="list-style-type: none"> <li>Section 501(c)(3) and (4) organizations, and section 4947(a)(1) nonexempt charitable trusts, <b>must</b> show the amount of grants and allocations to others and <b>must</b> enter the total expenses for each program service reported.</li> <li>For all other organizations, completing the "Expenses" column (and the "Grants" entry) in Part III is optional.</li> </ul>  |
| 4    | <p>Attach a schedule that lists the organization's other program services.</p> <ul style="list-style-type: none"> <li>The detailed information required for the three largest services is not necessary for this schedule.</li> <li>Section 501(c)(3) and (4) organizations, and section 4947(a)(1) nonexempt charitable trusts, however, <b>must</b> show the expenses attributable to their program services.</li> </ul>  |
| 5    | <p>The organization may show the amount of any donated services, or use of materials, equipment, or facilities it received or utilized in connection with a specific program service.</p> <ul style="list-style-type: none"> <li>Disclose the applicable amounts of any donated services, etc., on the lines for the narrative description of the appropriate program service.</li> </ul>   |

- Do not include these amounts in the expense column in Part III.
- See the instructions for line 1, B2.

## Part IV—List of Officers, Directors, Trustees, and Key Employees

List each person who was an officer, director, trustee, or key employee (defined below) of the organization at any time during the year even if they did not receive any compensation from the organization.

Enter a zero in columns (B), (C), (D), or (E) if no hours were entered in column (B) and no compensation, contributions, expenses, and other allowances were paid during the reporting year, or deferred for payment to a future accounting period.

Aid in the processing of your return by grouping together, preferably at the end of your list, those who received no compensation. Be careful not to repeat names.

Give the preferred address at which officers, etc., want the Internal Revenue Service to contact them.

Use an attachment if there are more than four persons to list in Part IV.

Show all forms of cash and noncash compensation received by each listed officer, etc., whether paid currently or deferred.

If you pay any other person, such as a management services company, for the services provided by any of your officers, directors, trustees, or key employees, report the compensation and other items in Part IV as if you had paid the officers, etc., directly.

A failure to fully complete Part IV can subject both the organization and the individuals responsible for such failure to penalties for filing an incomplete return. See General Instruction K. In particular, entering the phrase on Part IV, "Information available upon request," or a similar phrase, is not acceptable.

The organization may also provide an attachment to explain the entire 2002 compensation package for any person listed in Part IV.

**Key employee.** A "key employee" is any person having responsibilities or powers similar to those of officers, directors, or trustees. The term includes the chief management and administrative officials of an organization (such as an executive director or chancellor) but does not include the heads of separate departments or smaller units within an organization.

A chief financial officer and the officer in charge of administration or program operations are both key employees if they have the authority to control the organization's activities, its finances, or both. The "heads of separate departments" reference applies to persons such as the heads of the radiology department or coronary care unit of a hospital or the head of the chemistry or history or English department at a college. These persons are managers within their specific areas but not for the organization as a whole and, therefore, are not key employees.

### Column (B)

In column (B), a numerical estimate of the average hours per week devoted to the position is required for a complete answer. Statements such as "as needed" or "as required," or "40+" are unacceptable.

### Column (C)

For each person listed, report salary, fees, bonuses, and severance payments paid.

Include current-year payments of amounts reported or reportable as deferred compensation in any prior year.

### Column (D)

Include in this column all forms of deferred compensation and future severance payments (whether or not funded; whether or not vested; and whether or not the deferred compensation plan is a qualified plan under section 401(a)). Include also payments to welfare benefit plans on behalf of the officers, etc. Such plans provide benefits such as medical, dental, life insurance, severance pay, disability, etc. Reasonable estimates may be used if precise cost figures are not readily available.

Unless the amounts were reported in column (C), report, as deferred compensation in column (D), salaries and other compensation earned during the period covered by the return, but not yet paid by the date the organization files its return.

### Column (E)

Enter both taxable and nontaxable fringe benefits (other than *de minimis* fringe benefits described in section 132(e)). Include amounts that the recipients must report as income on their separate income tax returns. Examples include amounts for which the recipient did not account to the organization or allowances that were more than the payee spent on serving the organization. Include payments made under indemnification arrangements, the value of the personal use of housing, automobiles, or other assets owned or leased by the organization (or provided for the organization's use without charge), as well as any other taxable and nontaxable fringe benefits. See Pub. 525 for more information.

Form 941 must be filed to report income tax withholding and social security and Medicare taxes. The organization must also file Form 940 to report Federal unemployment tax, unless the organization is not subject to these taxes. See Pub. 15 (Circular E) for more information. See also the Trust Fund Recovery Penalty discussion in General Instruction D.

## Part V—Other Information

- Section 501(c)(3) organizations and section 4947(a)(1) nonexempt charitable trusts must also complete and attach a Schedule A (Form 990 or 990-EZ) to their Form 990-EZ. See General Instruction D for information on Schedule A (Form 990 or 990-EZ).
- Answer "Yes," "No," or "N/A" to each question.
- The organization must attach a statement regarding personal benefit contracts. See General Instruction V.

### Line 33—Change in Activities

Attach a statement to explain any significant changes in the kind of activities the organization conducts to further its exempt purpose. Include new or modified activities not listed as current or planned in the organization's application for recognition of exemption or not already made known to the IRS by a letter to its Director EO Examination or by an attachment to the organization's return for any earlier year. Also include any major program activities that are being discontinued.

### Line 34—Changes in Organizing or Governing Documents

Attach a conformed copy of any changes to the articles of incorporation, or association, constitution, trust instrument, or other organizing document, or to the bylaws or other governing document.

A "conformed copy" is one that agrees with the original document and all amendments to

it. If the copies are not signed, they must be accompanied by a written declaration signed by an officer authorized to sign for the organization, certifying that they are complete and accurate copies of the original documents.

Photocopies of articles of incorporation showing the certification of an appropriate state official need not be accompanied by such a declaration. See Rev. Proc. 68-14, 1968-1 C.B. 768, for details. When a number of changes are made, attach a copy of the entire revised organizing instrument or governing document.

However, if your exempt organization changes its legal structure, such as from a trust to a corporation, you must file a new exemption application to establish that the new legal entity qualifies for exemption.

## Line 35—Unrelated Business Income and Lobbying Proxy Tax

### Unrelated business income

Political organizations described in section 527 are not required to answer this question.

Check "Yes" on line 35a if the organization's total gross income from all of its unrelated trades and businesses is \$1,000 or more for the year. Gross income is gross receipts less the cost of goods sold. See Pub. 598 for a description of unrelated business income and the Form 990-T filing requirements. **Form 990-T is not a substitute for Form 990-EZ.** Items of income and expense reported on Form 990-T must also be reported on Form 990-EZ when the organization is required to file both forms.

**Note:** All tax-exempt organizations must pay estimated taxes with respect to their unrelated business income if they expect their tax liability to be \$500 or more. Use Form 990-W to compute this tax.

### Section 6033(e) tax for lobbying expenditures

If you check "No" to line 35a, you are certifying that the organization was not subject to the notice and reporting requirements of section 6033(e) and that the organization had no lobbying and political expenditures potentially subject to the proxy tax.

**Section 6033(e) notice and reporting requirements and proxy tax.** Section 6033(e) requires certain section 501(c)(4), (5), and (6) organizations to tell their members the portion of their membership dues that were allocable to the political or lobbying activities of the organization. If an organization does not give its members this information, then the organization is subject to a proxy tax. The tax is reported on Form 990-T.

If you check "Yes" on line 35a to declare that your organization had reportable section 6033(e) lobbying and political expenses in the 2002 reporting year (and potential liability for the proxy tax):

1. Complete lines 85a-h, page 5, of Form 990 (note instructions), and
2. Attach page 5 to Form 990-EZ.

Only certain organizations that are tax exempt under sections:

- 501(c)(4) (social welfare organizations)
- 501(c)(5) (agricultural and horticultural organizations), or
- 501(c)(6) (business leagues)

are subject to (a) the section 6033(e) notice and reporting requirements, and (b) a potential proxy tax.

**If your organization is not tax-exempt under sections 501(c)(4), (5), or (6), check "No" on line 35a, unless there was unrelated business income.**

If the organization meets **Exception 1** or **2** below, it is excluded from the notice, reporting, and proxy tax requirements of section 6033(e), and you should check "No" to line 35a, unless the organization had \$1,000 or more of unrelated business income. See also Rev. Proc. 98-19, 1998-1 C.B. 547.

### Exception 1. Section 6033(e)(3) exception for nondeductible dues.

1. All organizations exempt from tax under section 501(a), other than section 501(c)(4), (5), and (6) organizations.

2. Local associations of employees' and veterans' organizations described in section 501(c)(4), but not section 501(c)(4) social welfare organizations.

3. Labor unions and other labor organizations described in section 501(c)(5), but not section 501(c)(5) agricultural and horticultural organizations.

4. Section 501(c)(4), (5), and (6) organizations that receive more than 90% of their dues from:

- a. Section 501(c)(3) organizations,
- b. State or local governments,
- c. Entities whose income is exempt from tax under section 115, or
- d. Organizations described in 1 through 3, above.

5. Section 501(c)(4) and (5) organizations that receive more than 90% of their annual dues from:

- a. Persons,
- b. Families, or
- c. Entities who each paid annual dues of \$83 or less in 2002 (adjusted annually for inflation). See Rev. Proc. 2001-59, 2001-52 I.R.B. 623(2001-2 C.B. 623).

6. Any organization that receives a private letter ruling from the IRS stating that the organization satisfies the section 6033(e)(3) exception.

7. Any organization that keeps records to substantiate that 90% or more of its members cannot deduct their dues (or similar amounts) as business expenses whether or not any part of their dues are used for lobbying purposes.

8. Any organization that is not a membership organization.

**Note:** Special rules treat affiliated social welfare organizations, agricultural and horticultural organizations, and business leagues as parts of a single organization for purposes of meeting the nondeductible dues exception. See Rev. Proc. 98-19.

### Exception 2. Section 6033(e)(1) \$2,000 in-house lobbying exception.

An organization satisfies the \$2,000 in-house lobbying exception if it:

1. Did not receive a waiver for proxy tax owed for the prior year.
2. Did not make any political or foreign lobbying expenditures during the 2002 reporting year,
3. Incurred lobbying expenses during the 2002 reporting year consisting only of in-house direct lobbying expenses totaling \$2,000 or less, but excluding:
  - a. Any allocable overhead expenses, and
  - b. All direct lobbying expenses of any local council regarding legislation of direct interest to the organization or its members.

### Definitions.

**Grassroots lobbying** refers to attempts to influence any segment of the general public regarding legislative matters or referendums.

**Direct lobbying includes attempting to influence:**

- Legislation through communication with legislators and other government officials, and

- The official actions or positions of covered executive branch officials through direct communication.

### Direct lobbying does not include attempting to influence:

- Any local council on legislation of direct interest to the organization or its members, and
- The general public regarding legislative matters (grassroots lobbying).

### Other lobbying includes:

- Grassroots lobbying,
- Foreign lobbying,
- Third-party lobbying, and
- Dues paid to another organization that were used to lobby.

### In-house expenditures include:

- Salaries, and
- Other expenses of the organization's officials and staff (including amounts paid or incurred for the planning of legislative activities).

### In-house expenditures do not include:

- Any payments to other taxpayers engaged in lobbying or political activities as a trade or business.
- Any dues paid to another organization that are allocable to lobbying or political activities.

## Line 36—Liquidation, Dissolution, Termination, or Substantial Contraction

If there was a liquidation, dissolution, termination, or substantial contraction, attach a statement explaining what took place.

For a complete liquidation of a corporation or termination of a trust, check the "Final Return" box in the heading of the return. On the attached statement, show whether the assets have been distributed and the date. Also attach a certified copy of any resolution, or plan of liquidation or termination, etc., with all amendments or supplements not already filed. In addition, attach a schedule listing the names and addresses of all persons who received the assets distributed in liquidation or termination; the kinds of assets distributed to each one; and each asset's fair market value.

A "substantial contraction" is a partial liquidation or other major disposition of assets except transfers for full consideration or distributions from current income.

A "major disposition of assets" means any disposition for the tax year that is:

1. At least 25% of the fair market value of the organization's net assets at the beginning of the tax year; or

2. One of a series of related dispositions begun in earlier years that add up to at least 25% of the net assets the organization had at the beginning of the tax year when the first disposition in the series was made. Whether a major disposition of assets took place through a series of related dispositions depends on the facts in each case.

See Regulations section 1.6043-3 for special rules and exceptions.

## Line 37—Expenditures for Political Purposes

**Political organizations described in section 527 are not required to answer this question.**

A political expenditure is one intended to influence the selection, nomination, election, or appointment of anyone to a Federal, state, or local public office, or office in a political organization, or the election of Presidential or Vice Presidential electors. It does not matter whether the attempt succeeds.

An expenditure includes a payment, distribution, loan, advance, deposit, or gift of money, or anything of value. It also includes a contract, promise, or agreement to make an

expenditure, whether or not legally enforceable.

**All section 501(c) organizations.** An exempt organization that is not a political organization must file Form 1120-POL if it is treated as having political organization taxable income under section 527(f)(1).

If a section 501(c) organization establishes and maintains a section 527(f)(3) separate segregated fund, see the specific instructions for line 81, Form 990.

**Section 501(c)(3) organizations.** A section 501(c)(3) organization will lose its tax-exempt status if it engages in political activity.

A section 501(c)(3) organization must pay a section 4955 excise tax for any amount paid or incurred on behalf of, or in opposition to, any candidate for public office. The organization must pay an additional excise tax if it fails to correct the expenditure timely.

A manager of a section 501(c)(3) organization who knowingly agrees to a political expenditure must pay a section 4955 excise tax, unless the agreement is not willful and there is reasonable cause. A manager who does not agree to a correction of the political expenditure may have to pay an additional excise tax.

When an organization promotes a candidate for public office (or is used or controlled by a candidate or prospective candidate), amounts paid or incurred for the following purposes are political expenditures:

- Remuneration to such individual (a candidate or prospective candidate) for speeches or other services;
- Travel expenses of such individual;
- Expenses of conducting polls, surveys, or other studies, or preparing papers or other material for use by such individual;
- Expenses of advertising, publicity, and fundraising for such individual; and
- Any other expense that has the primary effect of promoting public recognition or otherwise primarily accruing to the benefit of such individual.

An organization is effectively controlled by a candidate or prospective candidate only if such individual has a continuing, substantial involvement in the day-to-day operations or management of the organization.

A determination of whether the primary purpose of an organization is promoting the candidacy or prospective candidacy of an individual for public office is made on the basis of all the facts and circumstances. See section 4955 and Regulations section 53.4955.

Use Form 4720 to figure and report these excise taxes.

### Line 38—Loans To or From Officers, Directors, Trustees, and Key Employees

Enter the end-of-year unpaid balance of secured and unsecured loans made to or received from officers, directors, trustees, and key employees. For example, if the organization borrowed \$1,000 from one officer and loaned \$500 to another, none of which has been repaid, report \$1,500 on line 38b.

For loans outstanding at the end of the year, attach a schedule as described below. Report any interest expense on line 16 and any interest income on line 2, 4, or 8, depending on the nature of the receivable that created the interest income.

**When loans should be reported separately.** In the required schedule, report each loan separately, even if more than one loan was made to or received from the same person, or the same terms apply to all loans made. Salary advances and other advances for the personal

use and benefit of the recipient, and receivables subject to special terms or arising from nontypical transactions, must be reported as separate loans for each officer, director, trustee, and key employee.

**When loans should be reported as a single total.** In the required schedule, report receivables that are subject to the same terms and conditions (including credit limits and rate of interest) as receivables due from the general public (occurring in the normal course of the organization's operations) as a single total for all the officers, directors, trustees, and key employees. Report travel advances for official business of the organization as a single total.

**Schedule format.** For each outstanding loan or other receivable that must be reported separately, the attached schedule should show the following information (preferably in columnar form):

- Borrower's name and title,
- Original amount,
- Balance due,
- Date of note,
- Maturity date,
- Repayment terms,
- Interest rate,
- Security provided by the borrower,
- Purpose of the loan, and
- Description and fair market value of the consideration furnished by the lender (e.g., cash—\$1,000; or 100 shares of XYZ, Inc., common stock—\$9,000).

The above detail is not required for receivables or travel advances that may be reported as a single total. However, report and identify those totals separately in the attachment.

### Line 39—Section 501(c)(7) Organizations

**Gross receipts test.** A section 501(c)(7) organization may receive up to 35% of its gross receipts, including investment income, from sources outside its membership and remain tax-exempt. Part of the 35% (up to 15% of gross receipts) may be from public use of a social club's facilities.

Gross receipts are the club's income from its usual activities and include:

- Charges,
- Admissions,
- Membership fees,
- Dues,
- Assessments, and
- Investment income (such as dividends, rents, and similar receipts), and normal recurring capital gains on investments.

Gross receipts **do not include:**

- Capital contributions (see Regulations section 1.118-1),
- Initiation fees, or
- Unusual amounts of income (such as the sale of the clubhouse).

**Note:** *College fraternities or sororities or other organizations that charge membership initiation fees, but not annual dues, do include initiation fees in their gross receipts.*

If the 35% and 15% limits do not affect the club's exempt status, include the income shown on line 39b on the club's Form 990-T.

Investment income earned by a section 501(c)(7) organization is not tax-exempt income unless it is set aside for:

- Religious,
- Charitable,
- Scientific,
- Literary,
- Educational purposes, or
- Prevention of cruelty to children or animals.

If the combined amount of an organization's gross investment income and

other unrelated business income exceeds \$1,000, it must report the investment income and other unrelated business income on Form 990-T.

**Nondiscrimination policy.** A section 501(c)(7) organization is not exempt from income tax if any written policy statement, including the governing instrument and bylaws, allows discrimination on the basis of race, color, or religion.

However, section 501(i) allows social clubs to retain their exemption under section 501(c)(7) even though their membership is limited (in writing) to members of a particular religion, if the social club:

1. Is an auxiliary of a fraternal beneficiary society exempt under section 501(c)(8), and
2. Limits its membership to the members of a particular religion; or the membership limitation is:
  - a. A good-faith attempt to further the teachings or principles of that religion, and
  - b. Not intended to exclude individuals of a particular race or color.

### Line 40a—Section 501(c)(3) organizations: Disclosure of excise taxes imposed under section 4911, 4912, or 4955

Section 501(c)(3) organizations must disclose any excise tax imposed during the year under section 4911 (excess lobbying expenditures), 4912 (disqualifying lobbying expenditures), or, unless abated, 4955 (political expenditures). See sections 4962 and 6033(b).

### Line 40b—Section 501(c)(3) and 501(c)(4) organizations: Disclosure of section 4958 excess benefit transactions and excise taxes

Sections 6033(b) and 6033(f) require section 501(c)(3) and (4) organizations to report the amount of taxes imposed under section 4958 (excess benefit transactions) involving the organization, unless abated, as well as any other information the Secretary may require concerning those transactions. See General Instruction P for a discussion of excess benefit transactions.

Attach a statement describing any excess benefit transaction, the disqualified person or persons involved, and whether or not the excess benefit transaction was corrected.

### Line 40c—Taxes imposed on organization managers or disqualified persons

For line 40c, enter the amount of taxes imposed on organization managers or disqualified persons under sections 4912, 4955, and 4958, unless abated.

### Line 40d—Taxes reimbursed by the organization

For line 40d, enter the amount of tax on line 40c that was reimbursed by the organization. Any reimbursement of the excise tax liability of a disqualified person or organization manager will be treated as an excess benefit unless (1) the organization treats the reimbursement as compensation during the year the reimbursement is made, and (2) the total compensation to that person, including the reimbursement, is reasonable.

### Line 41—List of states

List each state with which the organization is filing a copy of this return in full or partial satisfaction of state filing requirements.

### Line 43—Section 4947(a)(1) nonexempt charitable trusts

Section 4947(a)(1) nonexempt charitable trusts that file Form 990-EZ instead of Form 1041

must complete this line. The trust should include exempt-interest dividends received from a mutual fund or other regulated

investment company as well as tax-exempt interest received directly.

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**Paperwork Reduction Act Notice.** We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws.

The organization is not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. The rules governing the confidentiality of the Form 990, and Form 990-EZ, are covered in Code section 6104.

The time needed to complete and file this form and related schedules will vary depending on individual circumstances. The estimated average times are:

| <b>Form</b>                              | <b>Recordkeeping</b> | <b>Learning about the law or the form</b> | <b>Preparing the form</b> | <b>Copying, assembling, and sending the form to the IRS</b> |
|--|----------------------|---|---------------------------|---|
| 990                                      | 98 hr., 17 min.      | 15 hr., 10 min.                           | 21 hr., 10 min.           | 1 hr., 4 min.   |
| 990-EZ                                   | 28 hr., 56 min.      | 11 hr., 39 min.                           | 14 hr., 30 min.           | 39 min.   |
| Schedule A (Form 990 or 990-EZ)          | 50 hr., 13 min.      | 9 hr., 26 min.                            | 10 hr., 40 min.           | -0-   |
| Schedule B (Form 990, 990-EZ, or 990-PF) | 4 hr., 46 min.       | 1 hr., 23 min.                            | 1 hr., 31 min.            | -0-   |

If you have comments concerning the accuracy of these time estimates or suggestions for making these forms simpler, we would be happy to hear from you. You can write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001. **Do not** send the form to this address. Instead, see **When and Where To File** in General Instruction H.

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